

CORPORATE PARTICIPANTS

Michael Carroll, Chief Executive Officer

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Stacy Slater, SVP, Investor Relations

PRESENTATION**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, 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

This was another quarter for Brixmor where the strength of our investment proposition continued to be evident. We have an opportunity unlike any of the other companies in our sector. I've continued to highlight our mark-to-market opportunity to the investment community as being our point of differentiation. The clarity of our opportunity can be seen in looking at our leasing numbers for the quarter. We signed new leases at nearly \$16 per square foot versus our in-place portfolio rents of \$12.31 per square foot. Our new deal spreads were over 50%, and our blended rent spreads climbed to over 16% in the quarter, after three consecutive quarters approaching 14%. It is extremely compelling and as I said last quarter, it is really a WOW opportunity.

Driving shop occupancy continues to be one of our key focus areas. Our small shop occupancy increased 150 basis points year-over-year and 40 basis points sequentially. This represents seven quarters of year-over-year growth above 100 basis points. Another facet of our organic growth story is we added 11 projects to our anchor space repositioning and outparcel development pipeline, bringing it to 36 projects underway and 15 completed year-to-date. As such, approximately one-third of the previously identified 160 Raising the Bar projects are either underway or completed, positioning these properties well for the next decade, with strong follow-on leasing, NOI growth and value-creation continuing. It is important to recognize that our project pool constantly evolves and we expect to provide a detailed update on our Raising the Bar efforts next quarter, marking our progress in the one year since first announcing it.

And while there is no argument regarding the strength of our operating fundamentals since our IPO, we continue to realize that misperceptions and misunderstandings regarding our investment story permeate the Wall Street community. As such, we feel it is important to reiterate some of our key considerations:

- First, we are primarily an organic growth story. We have a great team of operators led by our regional Presidents, Tom Litzler, Barry Rodenstein and Mark Worley, who execute our asset plans every day. Select acquisitions and more intensive redevelopments will enhance our growth over time.
- Second, is the long-term mark-to-market opportunity embedded in our portfolio. We have many years ahead of us of below-market leases, a long runway. And when combined with our Raising the Bar efforts we are well-positioned to drive outsized rent growth, with 67% of our GLA expiring between now and 2020 at \$11.71 per square foot in an environment where we are signing leases in the \$15 to \$16 per square foot range. This opportunity is driven by the established nature of our assets and the associated character of our expiry schedule. We like to say we have built-in growth and through our Raising the Bar efforts, utilizing best-in-class anchors to drive rent gains and NAV improvement, we are maximizing that opportunity.
- Third, we are a NOI and earnings growth story. Same property NOI growth, which was 3.6% this quarter and 3.5% year-to-date, will continue to reflect a larger portion of rent growth, with occupancy gains on the margin, coming mainly from small shops as we rotate our anchors to best-in-class. Simply put, we are growing cash flow while at the same time repositioning our portfolio for the long term.
- Lastly, portfolio quality, often discussed, but rarely understood. For us, quality is defined by strong grocers producing excellent sales and driving consistent traffic. We are achieving grocer sales productivity exceeding or on par with our peers at \$555 per square foot, but across more diversified markets with lower credit concentration and risk. Grocery-anchored centers should be measured differently. It is about

grocer market share and overall sales productivity that are key predictors. Our stores now average \$30 million in sales, and those sales drive consistent traffic, not seasonal fourth quarter swells. It is the foundation that drives our leasing. People need to eat and grocers drive traffic regardless of zip code. This is an underappreciated benefit of our portfolio breadth.

Turning now to highlight specific operational achievements during the quarter. Leasing volume this quarter was substantial, aggregating 3.4 million square feet, with 900,000 of it being new leases. This is up 20% from total leasing volume in the first quarter. And of note, we were able to execute a Rue 21 deal in just seven days, the quickest lease we have ever done with a national retailer start to finish. We also executed leases with Dollar Tree and Five Below in less than a month. These leases, as well as our overall production, are really indicative of the strength of our operating platform and how well our internal disciplines function together to drive production.

In April, we discussed our ongoing disciplined reduction to certain merchandise categories, including three office supply stores aggregating 60,000 square feet where we did not pursue lease renewals. These projects were added to our anchor space repositioning pipeline this quarter, bringing the total number of projects related to decreasing office supply stores to five. We have already re-leased and significantly upgraded the tenancy of all three locations, increasing rents 40% from the prior average of \$8.25. The best-in-class nature of the new tenants are evident in DSW and Five Below, where we helped them in their initial rollout into the Memphis market, and the other locations were upgraded with Michaels and buybuy Baby. We also added three outparcel development projects to our pipeline this quarter, bringing our total underway to seven projects. These are low-risk opportunities for us to add retail densification to our assets, while improving our merchandise mix with high-rent, traffic generating retailers such as Habit Burger, Red Robin and CVS.

Small shop leasing continues to benefit from these Raising the Bar efforts, as we expand the breadth of this tenant base with both new and expanding retailers. We are tackling our small shop leasing from a variety of angles, with a fair amount of new leasing coming from proven, financially strong players such as Martha's Mackinac Island Fudge, a high-end purveyor in Michigan, and MesoMayo, a growing Dallas-based upscale Mexican eatery. We will be their third location. In Philadelphia, we signed a lease with Harvest Seasonal Grill, which is run by a high-end hospitality group with substantial restaurant success. We will be their sixth location and we expect this lease to help serve as a catalyst to remerchandise the remaining center with more upscale retailers, potentially including some traditional mall merchants. We are also focused on the national and regional small shop operators through our direct to franchisee program. By proactively reaching out to existing franchise owners in our portfolio, we signed four new leases, including two more with wireless stores, a Dunkin' Donuts and a Fantastic Sam's Hair Salon. Other new small shop leases of note executed this quarter include our first lease with Pinot's Palette and a lease with Villa -- Join the MOVEMENT, a rapidly expanding, urban footwear retailer sponsored by Nike. Quick service restaurants and more traditional restaurants, both which help bring consistent traffic to our centers, are still expanding across multiple food categories. This quarter, we signed two leases with Noodles & Company, our second recent lease with Buffalo Wild Wings, and additional leases with First Watch, which serves just breakfast and lunch in over 100 locations; Moe's Southwest Grill and Marco's Pizza, a hometown Toledo favorite which has more than 500 locations.

Moving to acquisitions, it's exciting to be able to say that phrase for the first time in several years. These transactions are indicative of the capabilities of our platform with off-market sourcing and opportunities for us to leverage our operational expertise for value creation. First, Larchmont Centre is a 104,000 square foot center located in a strong in-fill suburb of Philadelphia. The property is anchored by a market leading ShopRite grocer, with sales of over \$600 per square foot. Our expectation is to expand ShopRite over time, as well as lease up four small shop spaces. Followed by Webster Square, an 180,000 square foot shopping center in the Boston market, and also grocery-anchored by Star Market (an Albertsons banner). This property serves as the dominant retail center in its trade area, essentially functioning as the town square. It is our intention to add retail densification at this site by taking advantage of outparcels opportunities, while also marking it to market. Given the less sophisticated family ownership of these assets, we are confident there is additional upside as existing small shop leases expire. We also acquired during the quarter a 96,000 square foot outused Hobby Lobby at an existing asset, Bardin Place, in Dallas. The Hobby Lobby is paying only \$6.00 per square foot and is in a sandwich position next to a soon to be opened WinCo Foods, an anchor space repositioning project currently underway. We intend to take back approximately 30,000 square feet from Hobby Lobby and remerchandise it at market, more than 2x the current rent. This is a great example of what we do. We are operators focused on maximizing value by taking underutilized retail space and repositioning is, simply Raising the Bar. Of note, each of these assets was acquired at a significant discount to replacement cost.

Our dispositions this quarter also illustrate our objectives of maximizing value. Through the portfolio sale of three assets and two outparcels, we generated \$32 million of proceeds, while disposing of 100% leased assets, of below average size, with limited upside potential. At Midway Market Square in Cleveland, where two outparcels were sold, we will stabilize the remaining asset and then market it for sale. This is an example of a situation where we can achieve a lower cap rate versus the entire asset if it were sold as one. We will continue to seek similar opportunities where we can recycle capital from fully valued, lower growth assets into assets with stronger growth profiles.

Three last items to note.

- We welcomed our second new director in the past six months, Gabrielle Sulzberger. Gaby is a general partner at a private equity fund and is a director at Whole Foods. She has significant experience in the grocery and diversified retail sectors.
- In addition, A.J. Agarwal has resigned from our Board. His resignation came as a result of Blackstone and the remaining Board accelerating its objective of being a majority independent and fully compliant with NYSE listing standards for board constituency earlier than the timeframe required under transition rules. As such, our Board has reduced to nine directors, with only three Blackstone designees remaining on the Board. This decision illustrates the Board's commitment to best-in-class corporate governance.

- And next week, we will be relocating and downsizing our corporate headquarters two blocks north to 450 Lexington Avenue. As we indicated previously, the move will result in cash rent savings of about \$1.5 million per year, which is already incorporated into our guidance. We invite you all to come visit us in our new space.

I'll now turn the call over to Mike to review our earnings results and balance sheet initiatives.

Michael Pappagallo

Consistency is fast becoming the operative word in describing our financial performance, as this quarterly report provided another round of strong organic NOI growth, outstanding leasing spreads generated from 3.4 million square feet of leasing activity, continued uplift in small space leasing driven by an increasing number of anchor repositioning projects, and solid FFO and AFFO growth generated exclusively from activities that are transparent, dependable, recurring and reflect the business execution skills of each of our associates.

This quarter's earnings growth was generated two-thirds from operations and one-third from lower interest cost. Same property NOI accelerated from last quarter, reaching 3.6%, the consequence of higher rental income from improved lease rates, a product of our Raising the Bar initiative, and better than expected tenant retention, which reduced downtime, as well as lower operating expenses and bad debt provisions. We continue to see improvements in NOI margin and expense recovery ratios, and continue to find additional ancillary revenues from property operations to supplement base rental growth.

On the capital structure front, our strategies remain the same: drive lower average interest costs on the overall debt stack, refinance maturing or accelerated secured debt with unsecured debt, balance our debt towers and methodically improved debt metrics in pursuit of higher credit ratings. We continue to watch the bond market closely for an appropriate time for another bond execution. The market is choppy, reflecting the significant supply from M&A driven financings and somewhat elevated new issue concessions. But a solid execution is still achievable with patience and perspective. In addition to the \$330 million of mortgage debt that was paid off in the second quarter that had an interest handle of 5.34%, next week we will be prepaying \$89 million of a 2020 maturity for a modest premium that has an interest rate of 9.38%, and also have the ability to accelerate early \$385 million of 2016 maturities into 2015 with average rates of 5.6%. So the opportunity for interest savings is still available, consistent with our business plan and estimate range, despite the recent upward movement in treasuries and spreads. Also, we continue to get questions regarding the term loan expiring in 2018. While fully three years away, I reiterate that the instrument will be addressed well before its contractual maturity through periodic reduction via other capital sources and some rework and extension of the face maturity.

During this past quarter, we did launch an At the Market equity program with a filing level of \$400 million. It's no surprise that we have not yet accessed this tool considering what is happening with equity valuations. There was no ulterior motive in establishing the program when we did other than to have another capital raising tool in place for use when it makes sense to do so. We do not need equity to execute our business plan, but if the circumstances change and there is an opportunity to utilize equity accretively to enhance that plan, we want to have it available.

Our business plan is on track with expectations conveyed at the start of the year, and thus, our guidance ranges for financial and operating metrics remain the same. Our acquisition activity, net of dispositions, will have very little impact on 2015 results, as the incremental earnings generated by the overall net positive investment is offset by expensing of direct acquisition costs. That said, we expect the Larchmont and Webster Square acquisitions to generate internal growth consistent with the long-term 3% to 4% growth rate for the entire portfolio.

QUESTION AND ANSWER

Question

Just in thinking about the components of same store NOI growth into 2016, assuming that you continue to see healthy gains in small shop occupancy and similar releasing spreads to what you've been able to put up, right now the anchor re-tenanting is a drag, but if that drags starts to dissipate, we start to grow occupancy overall again, how should we be thinking about that impact on the same store NOI growth rate going forward? And how do expenses play into that? So basically, if you're looking at 3.0% to 3.7% in 2015, directionally, how should we be thinking about that into 2016?

Michael Pappagallo

All other things being equal, directionally NOI growth should revert more normally to what we've experienced over the past two years of approaching 4%. Consistent with what we've said before, occupancy will not be the driver. We expect to continue to see more occupancy gains from small shop leasing, but we still have quite a long runway ahead of us with anchor repositioning. So we don't expect much incremental occupancy growth coming from anchors. So when you spread out the components of NOI growth as we look into 2016, still the overwhelming driver is going to be the benefit of leasing spreads and repositioning higher lease rates that will drive us to a more consistent NOI growth rate, supplemented with some small shop uptick in occupancy.

Michael Carroll

I think Mike makes an important point about occupancy and how we think about that as a driver. Our best opportunity to drive value in this portfolio is to continue to work that anchor space. It's where we're under \$9.00 a square foot in average base rents and where we really feel like we have the most upside. So if the opportunity comes to recapture that space, much like what we did with the office supply stores this

quarter, if we can mark it 40% higher, we're going to take it off-line and do it. We've got this opportunity to set the anchor space right and merchandise it right for the next decade. And it's right now because of the supply environment that were in.

Question

On acquisitions, of the three assets that you bought in June, all of which seem to have some value-add component, just to get a sense for how you're thinking about these deals, if you're buying these effectively at a 6.7% yield today for \$59 million, how much additional capital do you expect to invest and where do you expect to end up all-in on a yield basis one to two years out?

Michael Carroll

Well I want to push the single asset, Bardin, off to the side, because that's really something that's part of an overall anchor repositioning; it's a piece of the center we didn't own. We had a good power center there that now we're converting to a grocery-anchored center with WinCo Foods, and to be able to get this space at \$6.00, where the market is \$12.00, where we know we're opening a \$50 million grocery store later this year next to it -- we would do that every day. Every day. That's part of our value-add business.

If I go to those other two assets, it was compelling for us. Where we see unlevered IRRs that are north of 8.5% and they are in markets that we understand and understand well, those are the kind of compelling opportunities that we're looking to recycle into. We're not buying assets for the sake of buying assets. We're buying assets where we're very confident we can grow cash flow.

Dean Bernstein

I would just add that we are looking at what we think will be some accretive activity going forward. There's a chance to expand the grocer at the Larchmont property and a chance for some additional asset densification up in Webster.

Question

Just back to the same store NOI growth, I think on last quarter's call you mentioned that you would see acceleration in the back half of the year, and we saw a nice sequential pickup this quarter. And you're sitting at 3.5% for the first six months, which is above the midpoint of the full-year forecast, which you kept on. Are you still expecting to see growth trend higher throughout the back half of the year? Or has there been some move-out activity or something otherwise that's going to act as an offset later in the year now?

Michael Pappagallo

Well two points. As we think about the fourth quarter, many of the repositionings that were set in motion late last year come into play, which should help in the fourth quarter. But all that said, clearly we're biased towards the high end of our range. But we did want to keep the 3% to 3.7% intact. We did want to have a conservative case on the lower end for some of the recent bankruptcies that have been put into the market, such as A&P and Anna's Linens. Certainly we feel that there is, to the extent that anything does happen there, that there's more upside opportunity for us. But we just wanted to keep the range recognizing some of those potential effects.

Question

In terms of the transaction activity in the quarter, not quite a dollar-for-dollar recycling program here. As we see a little bit of a pickup in both acquisition and disposition activity, should we expect to see more dispositions ahead of additional investments here or vice versa, where dispositions will be predicated on finding new deals?

Michael Carroll

Look, we're never going to match perfectly, for one. I think we're awfully close when you look at what we've sold to date. We've sold roughly \$50 million and we've bought \$59 million. And again, I think about Bardin as being something a little bit different, so we're really kind of right on, going back to one disposition last year. We told everybody net zero. Dispositions are driven by how we are at achieving the business plans at each property and where we are in that process. And as every quarter goes, we've achieved more of those goalposts, if you will, towards dispositions. And we'll look to recycle that capital and it'll go to one of two things. It will either go to a compelling acquisition opportunity, I guess three things, or it will go into our redevelopment reinvestment plan, or it will be deleveraging. It's going to go to one of those three buckets, but it's going to be driven by what we have to look at and what our opportunities are at that time.

Question

The negative \$2.8 million of other expense in the quarter, I know there are some state local taxes in that number, but what else is included? It bounces around a little bit quarter to quarter. Is this a little bit more of a more normalized run rate to think about going forward?

Michael Pappagallo

The difference was the acquisition-related expenses of about \$1.5 million.

Question

You have mentioned that you thought meaningful new development was still five years away. I wonder why you think that retail real estate is the last major format to see a pickup in new development?

Michael Carroll

It really gets back to where retail sales are and what we're seeing from our larger format retailers. The Targets, the Kohl's, the Home Depots, the Lowe's of the world, they still have a minimal, if any, new store programs, and those are really the companies that a lot of development was built around. Also we really don't see a lot of net new stores from the grocers. And so when you take all of those large format retailers and you say basically none of them have any material store programs, it's really hard for centers to get built. Look, we love TJ Maxx and Bed Bath & Beyond and those kinds of retailers, but they sign 10 year leases that local developers can't finance. And so you don't build centers around those retailers. You build centers around retailers who either buy their own sites and you can develop around them, or they sign 20 year financeable leases. And so we don't see the net new demand accelerating anytime soon, particularly from where it is right now, which is close to zero.

Question

And then how much anchor repositioning can Brixmor handle in any one year? And I know you were talking about maybe getting something more concrete with Kmart in terms of handling future re-tenants.

Brian Finnegan

We're about one-third of the way through our Raising the Bar initiative that we announced last year, and we can do as much of the opportunities that come up. We're proactively looking as much as we can to see where we can re-tenant to better merchants. And as we did with the office supply stores this quarter, when we have the ability to proactively take space back and put better operators in that are going to drive more traffic, we're going to do it. So I think we're on pace in terms of the anchor repositionings that we've highlighted and went out to the Street with as part of the Raising the Bar initiative, but as more projects come online, we can definitely handle them accordingly.

Michael Pappagallo

If I could just throw in that from an organizational perspective, we have no restrictions or no capacity issues to do additional repositioning activity, should they come to bear.

Michael Carroll

And then on Kmart, we continue to work on some things in our portfolio. I think we're circling up on some opportunities there that we will hope to share in further quarters as we move forward. But there definitely is more opportunity there coming.

Question

Do you have any Kmart's in Seritage?

Michael Carroll

We do not.

Question

If I step back and look at the portfolio, you guys have 78 assets, about 8.5% of your ABR, in markets that are outside the top 100 MSAs. And then there's another 12% of your ABR that's in markets where you only have one asset. And so I guess the question is if I add that up, you've got about 20% of your base rents coming from either small markets or markets with minimal exposure. Can you talk a little bit about why that does or doesn't make sense strategically for the organization going forward in terms of resource allocation? And then perhaps, if it doesn't make sense for the long term, why not aggressively move to sell out of those and use the proceeds to buy back Blackstone's stock and get a win-win on getting two issues resolved?

Michael Carroll

I think we've talked about this a lot. Our primary focus as we buy assets are going to be top 50 MSA assets, but assets that we have in some of these markets that are outside the top 100, we feel really good about those locations, the places they are. We feel good about Naples, Florida. We feel good about Boulder, Colorado. We feel good about Oxnard, California. They're not a stretch for us to manage. Are there some that are outside of our sphere? Yes, and I think you saw in this most recent sale we sold Davenport, Iowa and what have you. We've sold some markets like that. It's about doing things sequentially here where we think we've got the right value proposition, and we've maximized value at the asset. We're not going to sell where we still have growth that we see coming. So I hear where you're at. I think directionally, it's the right way to think about it. We're trying to own things where we think there's a reason to own them and sell things where we've maximized and stabilized to a point where we can't get value.

Question

Do you have any additional dispositions or acquisitions, for that matter, currently under contract?

Michael Carroll

We do not.

Question

You've mentioned in the past on some past calls increasing conversations with some of the mall tenants, including I think you had a meeting with Saks at one point. Can you just give us an update on what you're seeing there?

Brian Finnegan

We are in advanced discussion with Saks right now, on multiple locations throughout our portfolio. We're looking at a conversation we're having with J. Crew Mercantile right now in one of our centers outside Philadelphia. So we see this as a growth vehicle for us and those conversations have accelerated since that last call, as these retailers look to see where they can drive the most sales in the portfolio across the country.

Question

So it's more just about where they think they can drive sales versus the battle between rents in the A-mall versus maybe a shopping center?

Brian Finnegan

I think it's both, right? So we're seeing them move out and be able to lower their overall occupancy cost, particularly in CAM and taxes. Base rents are going to be roughly the same, but they're able to significantly bring down the overall occupancy costs. And what they're seeing is that, and then also their ability to drive sales at open air centers and properties such as ours.

Michael Carroll

So for that point, part of that is obviously the co-tenancy at any given center. They want to go where their customer is, and not every center is suitable for that sort of transaction. But we certainly have a good opportunity in the portfolio, where we can point some of these mall retailers to centers that make sense for their strategies.

Question

On the acquisition side, the assets, we'll leave off the one that was really an add-on, a bolt-on to an existing center of yours, but the other two assets seemed a little on the smaller side. And just curious if that's just a reflection of where the opportunity in the market, as far as bang for the buck, or if it just is happenstance that of the deals you looked at, these two happened to be on the smaller side?

Dean Bernstein

I would say that certainly the center in Larchmont is a neighborhood grocery-anchored center and 100 to 125,000 square feet would be about right for that. The Webster property is 180,000 square feet. I think it's a matter of where these centers have fallen, but for grocery-anchored it's a good fit, I think, for us. So we feel that these are typical assets for us to buy.

Question

Were they long tenured discussions where you felt like you were the only one talking to these sellers, or you had a sense that they were talking to a number of people and it was just a matter of who could get to the finish line the soonest?

Dean Bernstein

There are very few shopping center owners that aren't talking to a lot of people these days. We were fortunate to have a relationship that allowed us an early look into one of the properties, and the other property was a limited marketing process where we took the time to really try to understand the asset and the quality of the grocers and the tenancies in the area.

Question

Previously, when you've been asked about releasing spreads, you guys have been a little cautious on letting those of us on the outside getting a little carried away in the spreads that you guys are reporting. And yet over the past number of quarters, your spreads have been very good, obviously 50% this quarter on new leases. So is there any reason not to think that these spreads just remain as robust as they are, or is there something coming up where we should think about these results possibly coming in on the lower double digit side versus the healthier double digits that we've seen as of late?

Michael Carroll

I think this was a really strong quarter for spreads. We felt coming into the year like we had a very good year teed up. We felt like who we were talking to versus where previous rents were expiring were good, and so we gave that guidance from 12% to 17% on spreads. We're not changing it, we will continue to be in that range this year. That's the message I keep trying to get across to people. We have just this long-term opportunity where the expiring rents are \$11 and \$12 in an environment where we're signing leases at \$15 to \$16. So our spread opportunity is going to continue to be strong. We should be at the top of the peer group for the foreseeable future. That's what it should be.

Question

Going to your financial revenue, this quarter you posted 2.2%. Starting with that and maybe you could help build it up, it seems like there's a few moving parts, the Kmart leases, the small shop occupancy gains. But it seems like they haven't really contributed to that same store revenue growth number. So on a go-forward basis, maybe you could help me build that layer of the cake up, starting from 2.2%. What does that look on a normalized basis, when everything is cash flowing?

Michael Pappagallo

You brought out the right point. When we think about our NOI growth and you look at another metric, which was the billed occupancy, you didn't see that move very much. And I think that reflects the fact that there is a lot of pent-up opportunity in terms of leases which have been signed, but have not commenced rent. So what you're seeing on the rent line is a little bit lower than what we've been trending, and that's where you're seeing what we talked about, the effect of the downtime. We're getting good, solid growth from releasing spreads and some uplift on small shop occupancy. But it's not as robust as it could be, because we're in the midst of this downtime cycle from some of the major deals that we signed at the end of last year. So going forward and into 2016, I would expect that to trend upward as we realize the billed occupancy is catching up with the leased occupancy. So I can't give you an exact number, but I think that in terms of the layers on the cake, expect that to build over time.

Michael Carroll

One thing I would say to you too is it's a long-term repositioning opportunity that we have, and we're fortunate enough that we're able to do this in this environment today without the supply. And we're able to really take a different tack with our anchor stores as they come up for renewal and we're able to be selective. And we're able to continue to have this 3% to 4% NOI growth, while doing all of this underneath the hood, if you will. And so that's an opportunity that I think is unique for us today, and we're going to continue to take advantage of it. Because the magnitude of the changes that are taking place are going to be really beneficial for the portfolio, not for this year, not for next year, but for the next 10 years. And so we're trying to do this very thoughtfully and really take advantage of our ability in this marketplace to be able, with the expiry schedule we have, to be able to make the changes that we're making.

Question

Just a quick follow-up on the acquisition strategy. I think on a go-forward basis after some of the non-cash items start to burn off and as you refinance some of your higher costs, that your free cash flow after CapEx and dividends is probably approaching \$200 million a year plus, right? So with that cash flow, how do you internally think about how much you spend on redevelopment, which it seems like is about \$80 million? And how much do you spend on acquisition volumes in total? Have you thought about what's the right number or the range of how much you want to spend on growing externally?

Michael Pappagallo

To your point, we continue to work under a notion of a net zero. When we think about our utilization of cash flow, still the most lucrative opportunity is back in the business. So the bias will continue to be on repositioning and some redevelopment opportunities within the portfolio. The acquisitions part of the equation is still minor compared to the internal growth story, but we want to be in the market. We are going to find opportunities from time to time, as we did this past quarter and in this concept of recycling, so primarily to use this position to fund those acquisitions or some other uses as well. There really has not been a change in what we have talked about since the IPO in terms of sources and uses of funds. We initiated our acquisition capability and will continue to do that on a very careful, nuanced basis along with the dispositions. I just don't want that to drive the discussion in terms of how we think about the capital utilization; it's still back in the business.

Question

In terms of the profile here of same store NOI growth, obviously a lot of the remerchandising kicks in during the fourth quarter, so that will help the top line there. But just looking at the same store expense growth rate here, in the second quarter it was negative, so that helped. And then you got better recovery rates, and then I think in the third quarter of last year it was negative. So I'm just curious if that's going to set up a headwind for you, just from a comparisons perspective, that we need to be aware of or cognizant of, I guess?

Michael Pappagallo

Often what I'd say is there's always a dynamic, some element of timing, as you bounce from quarter to quarter in spending. And also last year, we did have some additional operating costs associated with the unusually harsh winter. But what I would say is that we have experienced some permanent benefit, if you will, in relation to our operating cost base, the common area maintenance. We have invested more in our lighting program. We've seen a reduction in utility costs across the board. We made significant capital investment, as you saw, in terms of maintenance capital last year. That's helped to reduce paving related break-fix expenses. So in the underbelly, there has been clearly an improvement and a tightening of our overall operating cost dollars. Again, not to say it's not going to fluctuate with seasonality and timing and unusual items, but I think we're in good stead there in terms of ongoing production. Of course real estate taxes are always the wild card. We've talked in different calls about some markets in the Chicago area and in certain other pockets of the country where we're experiencing real estate tax increases. But we manage that as aggressively as we can.

Question

The three office boxes that you got back, I think I have heard that the rent would start to flow in late 2016 or early 2017, and just curious it seems like a fairly long period of downtime. I was just wondering if there was something unusual that's causing that to be extended out so much?

Brian Finnegan

It's more the first half of 2016 we're going to see those three come online. I think as we go out and look at the six that we got back overall and we talked about the opportunity that we have with these office supply stores when the merger with Office Depot and Staples was announced, and we're actually ahead of where we thought we'd be. The three that we got back, we were able to get those at a 40% spread. The three that are expected to close later this year and are in our guidance, we've got a phenomenal opportunity in Miami to upgrade that box. We have an anchor repositioning project that we're about to kick off in Jackson, Mississippi. And we have another location in St. Louis where we're backfilling at a much stronger operator. I think in terms of the late 2016, 2017, I think those may come on later in the year, but the three that we've executed on should happen in the first part of 2016.

Question

On the A&P situation, just curious when you think you might know more about their plans in terms of which they're keeping and which they're closing and maybe what your take is on your seven in the portfolio, how comfortable you're feeling with those?

Michael Carroll

It's an uncertain situation right now, but we look at the auction process being completed there at the end of September / early October, is what's been scheduled today. The bids that are out there are stalking horse bids, so they're really not bids to bank on. And I don't think that that's the way that it's going to end up, the way that those stores are going to end up getting shuffled quite a bit between now and the end. And there is, at least from our information, there's quite a bit of interest on those stores. So we'll see. I think we'll fare well. We like the real estate in all of our locations that remain, and it's something that we would like to have a lot of that real estate back. But important to us is to navigate to the right operator in those locations, and so we're focused on that. But it's very early in the process today.

Question

I'm curious back on same store NOI, you've been tracking towards the high end of your annual guidance for this year, which I'm presuming is a little bit better than your original expectation. I'm just curious what's behind that better performance. Is it rent spreads coming in stronger than you expected? Is it less downtime that you originally thought or is it expense controls?

Michael Pappagallo

I hate to say this, but it's yes, yes, and yes. Each of the items that you mentioned is contributors to the improvement in same property NOI, a bit beyond the midpoint of the guidance range that we provided at the beginning of the year. And as I made the point earlier, we've kept that guidance range in place for now in anticipation of any events like the bankruptcy situations that might potentially put a drag. But again, to echo Mike's point, I don't think that's a high probability. There's a very low probability of it happening, but we didn't feel at this point we should heighten or change the guidance range until there's further clarity. But we are pleased with the trend line of where the same property NOI has gone the first half of the year in light of that initial guidance.

Question

I know rent spreads have been a big driver of this. But can you talk about why the rent spreads have been so robust and how they've consistently accelerated. What's driving that?

Michael Carroll

This is a great quarter for us; we've continuously improved upon our spreads. We were at 30% last year, approaching 40% the last two quarters. And again, it highlights the mark-to-market opportunity that's unique to the portfolio as we proactively remerchandise a few of these anchors. Mike mentioned the pipeline, and to just point out a couple examples. We opened a Walmart Neighborhood Market last week in the Miami market. They replaced the Winn-Dixie, which was dark for five years. And since we signed that lease a year ago, we've signed eight shop leases at the center. More importantly, we signed those leases at 60% above the in-place ABR. And in the process, that center went from a dark anchor with no catalyst to follow-on leasing to being one of the stronger grocery-anchored assets that we have in that market. I look at a center in Milwaukee, Wisconsin where we opened Marshalls and DSW in a former office supply store back in March. That started a couple years ago when we expanded the Sendik's grocer there. And those two leases are part of 15 that we signed at the center, including Staples, Men's Warehouse, Noodles & Company, at rents that are 40% above what the in-place ABR was. So as we look at those projects, and we have them throughout the portfolio and the three office supply stores that we added this quarter are part of that as well, and we look into our pipeline, which we still have two-thirds of that we're working through, we see continuous runway for this going forward. And it's exciting, and our guys are really taking advantage of it out in the field. It's not only the opening of these anchors, but then it's the follow-on effect, and it's the magnitude that comes with that follow-on effect and how we're able to drive rate around that. We have a portfolio that's wide in its geographic regions, so it's hard for the analyst community, investment community to see the assets. But the magnitude of the change going on

here, I can't speak enough about it and the strength that's coming from it and how well the assets are positioned coming out of the repositioning process. That's the driver.

Question

A question about your exposure to A&P and specifically, I think you have about seven. Do you expect any closures there? Do you think those stores could be picked up by some of the other grocers who are looking at that portfolio? I'm curious if you're going to see maybe some pop on those leases. What's your outlook?

Michael Carroll

We have seven locations total. There could be some closures, because they're a union operator, and for a non-union operator to take that store, they'd want to take it after it's rejected and closed in some sort of arrangement with us where they come in after the fact, if you will. But there is a lot of activity among Stop & Shop and the Albertsons banners and some of the other union operators in the market. So I think what's most likely to happen is the majority of these are going to migrate to stronger, more dominant market-share union operators. But there is a chance there's a couple of those could go dark and close and that we would replace them after with other operators, other nonunion operators.

Question

On the acquisitions front, you've been out of the acquisitions game for a few years. Have you found it difficult to establish credibility with sellers versus your peers because you've been out of the game a little bit? And maybe as a follow-up to that, what's your yardstick for assessing deals? Are you guys looking for returns and risks that are better than the midpoint of your portfolio, better than what you're selling? Since it's a new activity for you guys, I'm just curious how you guys are benchmarking it?

Michael Carroll

It has been really since 2006 or 2007 since the last time that we've purchased assets here. And building a team was part of what our goal was here over the last year, to put some people in place to have a team and establish people who have relationships and the Company has a lot of relationships with the brokerage community through selling assets over the past several years. I'll remind you we probably have been the biggest seller in the market, and I would add one of the biggest deleveragers in the market since 2009 where we've deleveraged this business by over \$3 billion, the magnitude of that number is bigger than most of our competitive companies in the space.

Dean Bernstein

I think staying active in the dispositions market over the years has kept us fresh with all our contacts, and when we call and we say that we're the second largest strip center owner in the country or the largest grocery-anchored center owner, that's instant credibility. That's really just not an issue for us. So between the relationships and the size of the Company, I think we're able to penetrate and I think with the new team that we've put together, we're well poised to buy selectively and well poised for when the markets change a little bit to buy maybe more aggressively than that.

Question

Do you think Blackstone's appetite for further secondary offerings has been tempered just because the stock price is a little bit lower than the high watermark on recent dispositions?

Michael Carroll

Look, they see value in the Company. They think the Company's cheap and if they didn't already own it, they would buy it again today, as John Gray has told me several times. But his view is trying to be a good steward of capital and not to be continually flooding the market with stock, and he'd like to sell at higher prices. He'd like every offering that he does to be at a higher price than his prior, and so I don't expect to see them active at this pricing level.

Question

Curious how large of a bond you're considering, given the balance of about \$300 million on your line at the end of the quarter.

Michael Pappagallo

Generally, we have talked in the range of \$500 million or so. As you'll recall, our inaugural deal was at \$700 million, and we certainly place great emphasis on liquidity for the bond holders. So we certainly want sizes that are at least index eligible and even greater. So just use that as a working number, and obviously, as we focus on the markets and the demand, we can adjust that number.

Question

And isn't the market loosening up at all or is it more of the same of what you've seen?

Michael Pappagallo

Well, as in my prepared remarks, it's been choppy and so much has been driven by the heavy supply in the marketplace. With earnings season underway, many companies are in blackout mode. So the supply may be reduced for a short period of time. But we suspect and many of our investment banking friends tell us that as we get through the summer and back into the last quarter of the year, volumes are expected to be significant, again additional M&A activity and even some deals trying to get in ahead of the anticipated Fed rate increase, whenever that might be.

Question

With the recent news of further layoffs in Houston, we were curious if you guys have seen any negatives there? And could you share the same store growth in Houston for your portfolio?

Brian Finnegan

In terms of Houston overall, we haven't seen it really impact the portfolio tremendously. I think you've seen it in some other sectors down there. What it has done is put a damper on new retail development. That was one of the places in the country where we had seen more activity in new development than in other parts. So it's helped us in terms of existing shopping centers to have retailers that are still out there looking for space, and our metrics are pretty strong there.

Michael Carroll

We're over 4.5% year to date on same property NOI in the market, and I would say to you that's a backward-looking measure. We watch what's going on there going forward. We haven't seen any retailers redline the market or tell us that they're struggling or seeing negative comps or whatever. But it's still early; it's something that we watch very closely.

Question

You mentioned earlier on a year-to-date basis the acquisition and disposition activity has a pretty neutral impact, only slightly weighted towards acquisitions. So today you're in the top 50 markets with 519 centers. Do you think in two to three years the portfolio will look different? Will the capital recycling grow in terms of its impact? Might you own 400 centers in the top 20 or 30 markets? Is this the goal?

Michael Carroll

It's not a goal. I think you're going to see our number fluctuate around slightly from where it is today, but with a bias towards high-quality grocery-anchored properties in top 50 markets as a primary focus.

Question

So the expirations coming up in the next few years are \$11 to \$12, and you mentioned you're signing rents in the \$15 to \$16 range, so that's like a 30% to 35% delta. In terms of bridging the gap between that and your mid teens leasing spreads, is the difference really just options and what you can get to?

Brian Finnegan

Yes, it's options and renewals overall, and I'd say the majority of our tenants exercise those options. And since we're renewing roughly 82% to 85%, we have the ability to go back and improve those rates. So it's really the options that are a drag on that number.

Question

Just wondering on your remerchandising plan, are you running full tilt on all the projects you can handle right now, or is there a pipeline that you could tap if you had the resources available right now? Or just kind of how is that process?

Michael Carroll

No, I think we're resourced just fine for it. We added somebody earlier this year. Ryan Guheen joined us and he's focused on some more complex projects that we have and some things that we think we can bring, additive things that we think we can bring to fruition. But we're not suffering from a manpower issue in executing, and I think if you look at what we've been doing, it's the numbers that we've been bringing online are climbing. So we've been finding more opportunities in our portfolio that have been proactive opportunities, whether it is Kmart's or taking back other anchor type spaces. We've been very active on it. So no resourcing issues here at all, but if there ever were, we would be quick to address them. But we're not finding any caps on our ability.

Question

So as you look for uses of disposition proceeds, it seems like redevelopment is one of your key agenda items that has great return potential. Is there a reason why going into the acquisition market makes more sense than investing at low teen spreads on your redevelopment, or just repaying debt, given that that's been an agenda item for you guys? And I don't think secondary issuances at this point are going to achieve that for you, just the way some of the stock's trading. So is there a reason why acquisitions were the use of proceeds rather than the other two items?

Michael Carroll

It was just a matter that there was compelling opportunities out there. We don't often come across opportunities in our core market like Philadelphia where we have a major presence; it's our second-largest market. We don't often come across family-owned ShopRite anchored deals in a high income pocket of the New Jersey suburbs where we know the operator, he has an interest in expanding, he thinks he can take sales from \$600 to close to \$900 a foot, and we've got underutilized shop space. And so we look at that and we see an IRR that's approaching 9% on a deal like that, and it is compelling to us. And Webster Square was a similar type opportunity where, in our mind, we're acquiring the Main Street of that market and that town, or one side of it anyway, from another unsophisticated family, where we see strong IRRs and opportunities and it was just compelling to us. And so if it was a 7% IRR or a 7.2% IRR, I don't think we would've done it; we would've said this it's not the right use of our capital. But where we saw an opportunity to go in to what we've said from the beginning, trade out of lower growth fully stabilized, fully valued assets into other higher growth opportunities, that's what we've been saying from day one.

Question

On the remerchandising front, it looks like your completed projects are mid 15s yields, and the pipeline looks like it's mid 13s. Is that a sampling issue, or should we expect the lowest hanging fruit has been plucked, and now we're onto tier 2 projects that are going to be a slightly lower yields going forward?

Michael Carroll

I think it's just a sampling issue. I think over time it's unrealistic to think that we're going to be north of 15% returns. But I think in that 12% to 15% window, we feel very comfortable that we're going to be playing in that space for some time.

Question

When you look at your balance sheet, what are the levers you can pull to get your balance sheet where you would like it to be, because I know since IPO, you've been discussing a key agenda item is reducing leverage and right sizing your balance sheet? Are there levers that are near term that you're going to pull, or is it just going to be a pragmatic process that over the next five years slowly works its way down?

Michael Pappagallo

I think it's a pragmatic process to continue to ratably improve leverage metrics and reduce debt. One opportunity for us could be upon a ratings upgrade, we would open up the preferred stock market. So notwithstanding, how you may view preferred, clearly a permanent source of capital, that would be another arrow in the quiver. And then we will continue to look for opportunities in terms of where the equity valuation is. And I think across the REIT spectrum, equity valuations are not great. But over time, that may not be the situation. And then we would look for equity to be an offensive weapon for NAV creation, and there may be an opportunity down the road but not now. So right now, we're going to continue with the basic plan of continuing to improve the debt matrix ratably and look for an opportunity, such as an upgrade down the road to open up different sources of capital.

Question

I just want to continue on the equity line of questioning. In terms of the ATM that you put in place, and you talked about, no surprise, that you haven't used it. But you also said that when it makes sense to do so and if circumstances change and you just responded saying it's not the situation today, but could be in the future. Can you walk through a little bit of your philosophy of raising equity? How much of it is dependent on the opportunity, whether it's acquisitions, redevelopment or delevering? And despite that you don't love where the stock trades, you would issue it versus how much the stock need to be reflective of consensus NAV? And consensus NAV is just north of \$27, and so regardless of the opportunity, you would want to wait for the stock to be reflective of your net asset value to issue?

Michael Pappagallo

Well, I guess I'd answer it referencing those in the investment community who are gods of earnings and others who are gods of NAV or honor those gods. So we need to be mindful of the economics of issuing equity that would be earnings accretive and NAV accretive, and it's a balancing act. It's not an easy job to run a Company and think about accretion on both an NAV and/or an earnings basis. So my comments were really based on the notion of not having a specific road map or specific examples of when you would and when you wouldn't. But I think it's pretty clear in this environment that where the stock price is that the math doesn't work from either an earnings or an NAV-accretion basis. So we're standing down, but there isn't necessarily a bright line number where we would say play or pass for purposes of this exercise. The other point that I wanted to make, and I should've answered it with a different question, people continue to talk about sources of capital. One thing I want to point out is that our core business strategy of reinvesting, we are supporting our growth through internally generated cash flow. In other words, the dollars that are coming off the property from a NOI perspective are being reinvested back in the business at very lucrative yields and are driving the growth. We are not dependent on what you would call a large redevelopment pipeline that does require external capital. Our internal operating cash flow is sufficient to generate good growth and to pay an increasing dividend and to marginally reduce debt and satisfy all our capital needs. A lot of this discussion is academic right now in terms of driving our business plan, and that's why when we found acquisition opportunities, it was a neat marry-up against the dispositions that are in the portfolio. So for now, it's out there. I want to have it available, the equity opportunity. But I just think there's, quite frankly a little bit too much debate right now about the equity side of the equation than there need to be.

Question

If the stock trades today at a 6.6 implied cap and you find acquisitions north of that, the fact though that's NAV accretive if you're buying at market and even if your stock is trading at a discount to your NAV?

Michael Pappagallo

But you know that example of 6 that you gave, where does it go? And I think that's a key factor. Many of the comments that Mike and Dean made with respect to these acquisitions is that there was a growth opportunity on top of a reasonable entry price. A good entry price coupled with additional internal growth from those properties going forward, that's what we want. We're not in the mode simply to be an asset aggregator, and to Mike's prepared remarks, we're not just pushing zip code. Our acquisition opportunities are not going to be driven by a zip code. They're going to be driven by the opportunity at the asset level.

Michael Carroll

What we found of the cash flow that Mike talked about, we found great opportunities inside the portfolio. We've had a lot of questions on this call about could we do more, is there any constraint to doing more? We've done more. We've spent more capital, and conversely, delevered less because we've had the opportunities and we've seen a change in the landscape, which said we had better opportunities and we took advantage of those. So I think to the extent there hasn't been great opportunities in the external acquisition market, we had a unique opportunity here where we sourced some things that happened to match fund very nice with really good growth on the backside. And we took advantage of them. The same situation next quarter could be a different set of circumstances where we sold something, we didn't see any opportunities, and now our debt balance is slightly lower, right? It's going to be based on a daily exercise of what opportunities are available, and it's not as academic as everybody want to make it out to be.

Question

Just curious on Blackstone, you sounded pretty confident that they don't like where the stock is and wouldn't be sellers. On the other side of that, they have now moved down to below 50%. They've dropped a member off the board, so they're no longer in any form of control position. They are IRR driven; they have liquidated a significant amount of the stock in increasing prices from \$22.50 up to \$26.38. Why do you have this confidence that they wouldn't try to take another \$500 million, billion off, even if it's a discount to what they perceive as full value? And even a discount to where they last issued. Why shouldn't we expect that?

Michael Carroll

I can only tell you what John has said publicly and what he's said to me. I'm not going to lock them into a certain program that they're on, if you have specific questions about if their thought process may change, I think they're best directed towards them. As it relates to the Board, I think they should be applauded. We talked to them, management took to them and said, look we were in a nine board member position. We added a good board director, because we saw one and we knew there was going to be a position for change in January. We went to them and said basically, why don't you do it today? It's the right thing to do. It's the right governance move to make. You still lose every vote anyways if you didn't make the change. They agreed to make the change; I think they should be commended for making that change. John Gray and John Schreiber still remain on the Board. We still benefit from their insight, but I think they are all about trying to see this Company run the right way and have a best-in-class structure on all things that we do.

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