3Q 2015 EARNINGS CALL - FINAL TRANSCRIPT **OCTOBER 2015**

CORPORATE PARTICIPANTS

Michael Carroll, Chief Executive Officer
Michael Pappagallo, President and Chief Financial Officer
Brian Finnegan, EVP, Leasing
Steven Splain, EVP, Chief Accounting Officer
Stacy Slater, SVP, Investor Relations

PRESENTATION

Stacy Slater

Thank you Operator and thank you all for joining Brixmor's third 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. Lastly, we kindly request that you're considerate of your peers with respect to the volume of your questions during the Q&A portion of the call. This will ensure all of our callers have access to management. At this time, it's my pleasure to introduce Mike Carroll.

Michael Carroll

This week marks the two year anniversary of our IPO and despite the volatility of the equity markets, our core fundamentals have continued on an upward trajectory. We have remained focused on taking advantage of the conditions that exist in the market to transform our portfolio. We recognized just after going public that the continued lack of new supply gave us an incredible opportunity to dramatically change the merchandising of our properties. It has also provided us with an environment where we can drive our rental rates. During the third quarter, our new lease ABR per square foot climbed to \$16.35, 29% above our in-place rents. We are leveraging the mark-to-market opportunity inherent in our portfolio to drive healthy leasing spreads with total leasing spreads averaging 15% during the past year.

As a result of our significant progress with our Raising the Bar initiative, our main vehicle for transformation, which I will expand on shortly, we have increased our small shop occupancy to 84%, 310 basis points higher than at IPO. And as importantly, the underlying strength and credit quality of these retailers has improved. Nowhere is the transformation process more evident than at Preston Ridge in Dallas, where we completed this quarter our first lease with Saks Off 5th, replacing a 40,000 square foot Gatti-Town pizza entertainment concept at twice the rent. This lease adds additional merchandising depth and quality to an already strong center and will open doors for unbelievable follow-on leasing. In fact, we already have interest from other high-end retailers, which could lead to a larger repositioning. The example of going from Gatti-Town to Saks is the most dramatic in my career. But this is becoming a consistent theme in the portfolio. Bring in best-in-class anchors and then generate excitement in the retailer community to drive shop leasing. We are very pleased with the direction of shop leasing. It continues to climb higher at a measured pace, just as we expected.

On the grocer front, we completed our second lease with Fresh Thyme in Minneapolis and have expansions underway with both Kroger and Giant Eagle. These actions will result in more sales and more traffic and better shop leasing with higher rents at these properties.

Our focus continues to be on recapturing below market leases whenever possible. On the heels of our recapture of four Kmart leases last year, earlier this month, we entered into an agreement to acquire three A&P leases aggregating 124,000 square feet during the bankruptcy auction for \$4.6 million. These stores are located in Long Island and Westchester County, New York. On average, the ABR per square foot for these three leases was \$6.59, with the mark-to-market opportunity on these locations as high as \$30 a square foot. We continue to see low rents in our portfolio as our greatest opportunity. We will continue to take advantage of these mark-to-market situations. In addition to rent uplift, the opportunity to transform and upgrade the property is a catalyst that drives our follow-on leasing. This activity has an impact to occupancy in the short term, but it is a trade that we are very comfortable making. Our long-term occupancy targets remain intact, but with these changes our expected rent levels on that occupancy are much higher.

Yesterday, we published on our website an update to our Raising the Bar presentation, originally posted in November of last year. Please let us know if you have any questions as you review the slide deck. This value-creation initiative has been the driving force of our ongoing portfolio transformation. It is predicated on improving our anchor offering by recapturing underutilized space and putting it in the hands of more productive retailers. By adding best-in-class anchors, we are driving higher sales and traffic and elevating the appeal of our centers while stimulating small shop leasing. And most importantly, as a result of this anchor space rotation, we are increasing rent levels and same property NOI, creating measurable value. Our results since IPO have certainly proven this.

Since commencing the program in July of 2011, we have executed 355 new anchor leases, positively impacting our follow-on small shop leasing, as we are signing new leases at $21.18 per square foot at these assets compared with our in-place rents of $12.68 per square foot. And at the associated properties, new lease spreads are reaching 56% and blended spreads 17%. We have also increased small shop occupancy at these properties by 450 basis points. With each project, we are compressing our assumption of cap rates at these assets as we increase cash flow and the associated value assigned to it. For the projects completed to date, 44 of them, we have created approximately $565 million of value and compressed cap rates by about 50 basis points.

For example, at Harpers Station in Cincinnati, we re-merchandised a former furniture store with Fresh Thyme, resulting in six follow-on leases including Pet Supplies Plus and AT&T. Rents have gone from an average of $14.00 per square foot to $36.00 per square foot. We estimate that these anchor changes have generated $22 million of incremental annual sales at the property and have compressed the cap rate by about 50 basis points.

Last year, we identified an additional 160 projects with expected capital costs of approximately $450 million offering similar merchandise transformation opportunities within our portfolio. This year we have added 30 more projects to the pipeline for an additional cost of approximately $50 million. The expected returns for the total pipeline are in the range of 12% to 15% and we expect to complete the vast majority of the projects by 2020.

Last week, we announced the appointment of Michael Hyun as Chief Investment Officer. He will have direct oversight of our business development, portfolio management and acquisition efforts. Michael joins us from Morgan Stanley's real estate investing group and brings valuable capital markets and transactional experience, as well as key industry relationships. We are building an outstanding team and my perspective is to build a team for the long term. I am very excited to welcome Michael to our team.

As the results indicate, our approach as an operating company, combined with our leasing expertise and the advantageous composition of our lease structures, we are positioned to continue to drive growth and increase portfolio value. As retail sales continue to be relatively soft, store closures from bankruptcy have increased and continued economic uncertainty have caused the leasing environment to become more challenging; the good news is the improvements that we are making at the asset level have made our portfolio compelling to retailers seeking opportunity. In addition, the defensive nature of this grocery-based portfolio and our below market rents offer significant upside and little, if any, downside. Our strategy stays the same and our progress continues.

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

Michael Pappagallo

Last quarter, I began my prepared remarks using the work consistency to describe our financial results and I'm pleased to be able to use that word again. Our same property NOI growth remains strong, resilient and consistent. Year-to-date NOI growth of 3.5%, a quarterly rate of 3.6% and an overall average of 3.9% over the past three years with every quarter at least 3.4% underlies that consistency. And the components of NOI growth reflect the benefits of the Raising the Bar initiatives. We see improvements in top line revenues reflecting strong leasing spread capture, improved recovery rates as more profitable small shop leasing continues to advance and lower credit losses underlying the upgrading of tenant quality.

Interestingly, these growth rates have been realized despite little change in overall occupancy levels. Leased occupancy is just 50 basis points higher than the level at our October 2013 IPO. Underneath those numbers, there's been an increase in small shop occupancy of 310 basis points to 84%, while anchor occupancy is 70 basis points lower at 96.2%. The latter number is all about our repositioning and recycling efforts to remerchandise our centers and capture small shop leasing opportunities. We accept, and often welcome, turnover on anchor boxes as it gives us the ability to position this space for the best use; uses that will improve and often transform the center's rent growth opportunities. As the results show, leasing spreads have carried the day and we expect that to continue, underlying a structural differentiator of our portfolio.

Our FFO results remain on track and consistent with our business plan. We did call out the positive impact of some adjustments to tax accruals from transactions from a very long time ago that have finally been cleared either through statutory passage of time or final determination by tax authorities. Not very significant to overall results, but in the continued effort to be transparent and to call out non-comparable items, be they pluses or minuses, we have provided the requisite disclosure.

As we are approaching the end of the fiscal year, we have provided some updates to our financial guidance components as shown in the press release and supplemental report. Unsurprisingly, most of the statistics represent a tightening of previously issued ranges. As for the drivers of earnings, namely NOI and interest expense, there really isn't much variability left, heck, it's the end of October, so you won't be getting any orchestrated upward revisions at the end of January. Based on the nine months results, our same property NOI levels have moved to the high end of the original range, even considering the 40 basis points drag from the Kmart and related repositionings. Our interest expense estimates are tightened up now that the planned refinancings are complete. Spreads, total capital spending and the straight line and FAS 141 estimates remain the same. Recall that we did increase the FAS 141 estimate for 2015 last quarter, as there was more amortization than I thought, but I expect it to fall off by $10 million to $15 million next year. We increased G&A primarily for additional stock compensation charges that measure the component of the current comp plan that are based on key operating metrics.

The one metric that we did dial back for 2015 year end is the anticipated leased occupancy levels. The primary cause is the recapture of the A&P boxes that Mike mentioned. Taking the proactive step of gaining control via the bankruptcy auction process now gives us the opportunity to reposition these assets as we want to.

As previously reported, we completed our second unsecured bond offering in August, in the midst of what was then and still is a choppy and unpredictable market. We felt the execution was solid even in light of market forces and provided us with the capital to complete our refinancing of 2015 contractual debt maturities. We still have the opportunity to accelerate about $380 million of early 2016 maturities and have substantial availability on our credit facility to do so. On our last earnings call, I mentioned that we would address our $1.5 billion 2018 maturity term loan debt well before its maturity. And to that end, we have begun the process to re-price and resize the term loan and extend its maturity, as well as extending and re-pricing the line of credit component of that facility. We have jumpstarted the process by receiving commitments from the three joint lead arrangers aggregating $1.1 billion, and expect to complete this syndication in time for an early January 2016 closing. This transaction will advance our objectives to balance out our debt maturity profile. While we expect continued interest savings in 2016, the more significant impact of refinancing our maturing debt will be extending tenure, keeping annual maturities well inside our available credit line capacity and further meaningful progress to unencumber our asset base.

Finally, the stability and growth of our portfolio, combined with the ability to estimate and fund that growth through operating cash flow and continued interest cost saving opportunities enabled us to establish a healthy 9% dividend increase to an annual rate of $0.98 per share and still maintain conservative AFFO and CAD coverage ratios. We'll provide detailed 2016 earnings guidance along with our fourth quarter earnings release.

QUESTION AND ANSWER

Question

Just a quick question on the balance between driving rent spreads and occupancy. You've done a really good job of driving the rent spreads very consistently. I'm just curious, the lease rate does continue to stay in that low 90s range. Just curious how you're thinking about the longer term stabilized level and when you might get to that point, and how you are balancing the difference between driving rent today versus occupancy?

Michael Carroll

We still feel like the long-term range is in that 95% arena. I said it in my opening remarks, I think we've been consistent about this all the way through. The lack of supply today and the prolonged lack of supply gives us a great opportunity to really rethink about it. And part of the reason why we put the deck out showing some of the transformative leasing is that you really can't look at the before and after pictures and not get the difference that's taking place. And we're doing that at strong rent levels. We're going to continue to seize those opportunities as long as we can. And we look at where our rents are at the tenant and anchor space and it's a high single digit rate environment for that existing expiring space. We're going to harvest as much of that as we can and take advantage of the long-term value.

And I'll lengthen this answer out a little bit. If we look at those A&P stores that we took back, we could have sat on our hands and watched a $7 Yonkers location go to Stop & Shop or Key Foods or something and we didn't. We jumped on it because it's worth two to three times that rate, closer to three times actually. We're not going to give that away. And maybe that's an occupancy friendly metric, but we're here to drive cash flow and I think we've been very consistent about that from the beginning. So that's going to be our continued focus.

Question

And just on the A&P leases, by your comments does it presume that all three locations will be split up into smaller tenants or do you foresee another grocer coming in and paying two times what A&P was paying?

Brian Finnegan

For two of the locations we plan to backfill those with grocers who take the entire box. And to Mike's point, that location is closer to three times. The location we have in the Mamaroneck is actually probably closer to four. We're getting offers in the $30 range on that. The location on Long Island, we do look at that potentially as more traditional retail, but again that's a $4 rent where we're seeing market rents there in the $20 a foot range. So it's an opportunity to upgrade across the board, but for those two we think we'll backfill with existing operators.

Michael Carroll

I would say the other thing, these are great examples because some in this space would be critical of our portfolio because of the low rents, and we just think the harvest opportunities are so tremendous. I'm so thankful that we have the low rents that we have in our portfolio, because it gives us this great internal machine to continue to capture these opportunities.

Question

Just in terms of the 2020 sort of timeframe, should we be thinking about the deployment as fairly ratable through that time period, or do you think they'll be any sort of bigger years given what you're seeing today in the pipeline?

Michael Carroll

I think we'll continue to be ratable. I think we've been consistent with that. It's the same case we've been. We'll always look for opportunities to advance it, but timing and municipal approvals and entitlements and all of the consents and other things always seem to keep it on a ratable basis.

Question

In thinking about the Raising the Bar initiative longer term, have you identified any larger scale projects beyond the $250 million future pipeline that you would consider over the next few years?

Michael Carroll

This is what we've identified today. We do have some larger, more complex projects that really are not ready to fully come on to the pipeline yet. So we have other things that we are working on. But as far as giving the visibility that we've given through the deck, that's all we were comfortable doing at this time.

Question

And then can you provide an update on your appetite to issue equity through the ATM at current level?

Michael Pappagallo

At this point, we have no plans to issue equity at the current level. Certainly, we're encouraged in the recent timeframe directionally and where the stock price is going. But it's really going to be a combination of healthy stock price coupled with opportunities, external opportunities that we have to deploy. At this point though, the base case plan is just to continue to fund the business through internally generated cash flow.

Question

On leasing and specifically the Texas markets and other oil patch markets, just given the concerns that are out there, can you talk about trends that you're seeing and I guess leasing pace and asking rents, and perhaps even retailer sales in those markets?

Brian Finnegan

Our national retail partners haven't told us that they're slowing down any expansion plans overall in the market. We have started to see a little bit of softness with local retailers and have deployed some resources. We sent one of our top producers there, promoted him to Vice President of Leasing and recently hired another leasing rep to really attack small shop leasing. But overall from a national retail perspective, we haven't really seen much of a slowdown.

Question

Maybe a little bit of an update on how you're thinking about balance sheet in Q4 and 2016? I think previously you talked about accelerated mortgage payoffs, and I guess I'm just curious with debt that's coming due in '16, how you may be thinking about the balance between unsecured debt and other options available to you?

Michael Pappagallo

I think the base plan is still to continue to payoff maturing secured mortgages with unsecured debt, primarily through the investment grade bond markets, although as I mentioned in my prepared remarks we will attack the term loan primarily to extend a significant piece of that into the outer years. Also, as I mentioned, there's about $380 million worth of contractual 2016 maturities that we can accelerate into the last month or two of this year, which we probably will as we do have capacity on the credit line. And then we'll probably finance about $1 billion to $1.3 billion in the capital markets in 2016. So by the time we get to the end of 2016, we'll have that much less secured debt, we'll have an unencumbered NOI proportion somewhere in the 70% plus range and a much better balancing of our debt maturities profile for the next 10 years. And then the things I just mentioned are very consistent with what we've been telling the investment community since the day we went public. So it really is a continuation of the plan that we had set out two years ago.

Question

What were the termination fees in the quarter related to?

Michael Carroll

It's around where Fresh Thyme is going in Minneapolis. So if you recall, Roundy's exited that market. We still had them on the lease through the termination there.

Question

On acquisitions, you have been steadily stepping up staffing on that side of the business, and I'm just curious how you envision your presence there in the future? Do you foresee yourself as a portfolio buyer, or a steady buyer of single assets, or this could be more targeted and I guess infrequent going forward?

Michael Carroll

We're building a team not to be super-active today, but to have a team that's positioned to evaluate and take advantage of opportunities as we go forward. I think one thing that's clear is we're repositioning assets. I think it's likely to see us be more active on the recycling side as we move into 2016 and 2017. And we think about ourselves as net zero, so as we recycle we're going to try to redeploy into good opportunities. But I would also think about the role that we're bringing Michael in for is a broader role. He's got a lot of both MSREF experience and Morgan Stanley investment banking experience, and gives us a good perspective on a balance sheet perspective, corporate transactions, and just more unique business development opportunities. So I think we're very fortunate to bring that kind of discipline into the Company.

Question

It seems like your loss provisions had a beneficial benefit this quarter in your same store NOI of about $800,000 that if it was negated maybe made up 40 basis point impact on same store NOI. Just curious to know what caused the change in your loss provisions?

Michael Pappagallo

Generally, an improvement in tenant quality, and as we assess every quarter the need for loss provisions or recovery of previous reserves, we make an adjustment. I would say that I think we're being a little bit shortsighted here. If you look at the full year loss provisions, you don't see much of a difference. So, yes, we had a benefit this quarter, but I would offer that you should take a look at the longer term perspective and look at the longer term pace of NOI growth. But that is the reason for this quarter's adjustment and it did have a positive impact.

Question

And when you report new lease spreads on the comparable pool of leasing, which was 53 out of the 126 new leases you signed this quarter, typically how do you define what is in the comparable pool versus what is not? Is it just purely a time-based decision, or what are the couple of metrics that you look at to take into what leases go in which bucket?

Michael Pappagallo

Well, we long ago adopted a notion that comparable lease spreads would be measured if the prior lease was in place within a one-year time period. And we adopted that, if I can go back many years, it was really at the urging of the research community who wanted some consistency in the measurement of comparable spread. I know there is dialogue that would say why we don't look at leasing spreads for every lease. Then I would be happy to report 130% increase in leasing spreads this quarter. But we are using the one-year convention as I believe most or all of our peers do. So you've got a combination of consistent treatment in this sector for leasing spreads that measure comparable leasing spreads. And the fact that our percentage of comparable to total is a bit under 50%, I think, in fact reflects all of the activity that we have been now been able to dislodge from older locations and considering the tight supply environment are able to put up new leases on previously vacant space.

Question

You had an 11% renewal spread this quarter. Do you think this was an anomaly, or can we expect to see renewal spreads in the several digit levels going forward?

Brian Finnegan

No, our renewal spreads have continued to grow. We were approaching 10% last year. We were at 10.8% year-to-date and came out with the 11.5% number. I think it's indicative of what we're doing in the portfolio. Not only are we driving shop leasing when we're putting stronger operators in, but we're also driving renewal rates. And you can see examples of that. I think in our Raise the Bar deck, you can see examples of that really throughout the portfolio as we've done these anchor repositioning projects and I think you're going to see that continue.

Question

Just curious if we look at your occupancy and look at the Raising the Bar initiative and how you're taking occupied space and turning it over into better use tenants and more popular tenants. If you look at the vacant parts of those boxes, so the 10,000 square feet and above, it looks like from 10,000 to 20,000 size boxes you are right about 90% leased. What's it going to take to really push occupancy on those vacant spaces, so ignoring the Raising the Bar and just thinking about filling vacant space? What is it that's hindering some of those 10,000 plus size boxes from finding tenants to live there?

Michael Carroll

We're trying to be thoughtful about what we're doing there. And I think examples are Kmart spaces we're holding - on some of the Kmart spaces we've took back, we're holding 70,000, 80,000 square feet vacant on those because in one property we're about to finalize another deal with Saks and we want to announce that deal before we push that space. And on another location upstate where we've put Dick's, we're going through the process with three different retailers right now trying to arrive at the best economic deal and the best retailer that we can put into that space. There's nothing that's holding us up, it's about trying to maximize value and again it's recognizing the environment that we're in. People keep thinking 2017 is when development is going to start. We don't see it, right. And we've got this environment now where we can really be patient and make sure we're doing the right thing. And that's what we're trying to do.

Question

When you look on the Raising the Bar schedule, how many of those leases are just ordinary course of business turnover and how many of those are something creative, or you've done something especially to get that space back and be able to re-tenant it, so what's the ratio there?

Michael Carroll

I think it's very high on the recapture. I'm going to say its 80%ish. I mean if I look in the book of what we had here, we could have renewed OfficeMax at Mansell, we could have kept the furniture store in Cincinnati, we could have kept Sports Authority at Bardin, and we could have kept Gatti-Town in Dallas. We could have kept them there. They wanted to stay. They can't stay at the rate, and we don't want them when there's a Saks or a better deal like that floating around. So it's very much proactive because of the environment today, it's a proactive approach that we're trying to take.

Question

When you look at the revision downward in your occupancy, what is the split between A&P and maybe if you can explain if there's something outside of A&P, what might be driving that revision?

Brian Finnegan

So 30 basis points of that is related to A&P and another 20 basis points is related to unresolved bankruptcies, particularly Anna's Linens, which happened in the third quarter. So taking those combined, we'd be at the low end of the original range.

Question

On the term loan refinance next year, understanding there are a lot of benefits to terming it out early; but the 2.24% effective rate, where do you think that goes next year?

Michael Pappagallo

The spread estimates that we are getting are lower than the original deals. So we expect to pick up a benefit relative to that original rate. And if you'll also note that a big part of that number was fixed into a swap, and our intention would be to swap a significant portion of the new instrument, as well. So we do not see any negative impact of this refinancing. In fact, we should have a marginal benefit.

Question

You also gave some guidance around the straight line rent and FAS 141 for next year. I think you said it will be down about $10 million or $15 million year-on-year. Assuming fourth quarter is sort of in line with the third quarter on that metric, should we look for about $50 million of straight line rent and FAS 141 next year? Just trying to gauge what number it should be?

Michael Pappagallo

The FAS 141 estimate is the bane of my existence because there can be variability to it as a product and a consequence of active repositioning activities. So we were a little conservative coming out of the gate this year, but I think it's going to revert more back to those lower levels, simply because once you earn any income, once it burns off, it's gone forever. So I think for sure that we will have a lower number next year.

Question

On the A&P leases that you're in agreement to repurchase out of bankruptcy, I don't know if you can just say or not but what's the total expected capital spend on the three assets you're acquiring and how do you think about the total expected return on the investment?

Michael Carroll

We spent $4.6 million on those three, so we start there. I'll tell you we'll be able on one lease to earn a 10% cash-on-cash return on that $4.6. On one re-lease, we'll be able to do that. I think the other capital components, it will be marginal. I'd say at least one of those will lease effectively as is, and then the other two will have some capital component but I don't think it's going to be much more on a combined basis than $30 to $40 a foot in TI. So we'll be well north of a 10 on a cash basis on these; well north.

Question

You mentioned earlier that retail sales are soft, store bankruptcies are increasing and the leasing environment's more challenging. Would you say you've seen a bigger deterioration in 3Q or has it been an incremental decline all year? And then along those lines, which retailers are you keeping an eye on?

Michael Carroll

I'll start and I'll let Brian talk about retailers we're keeping an eye on. I think what I'd say is we've said this from the beginning. This muted recovery that we're in really from 2011, 2012 onward, it's been a good place for us to operate because it has limited supply, it's given us an opportunity to turn over some retailers who aren't experiencing strong sales increases and aren't willing to pay increased rents to stay and been able to put in retailers who have a model that does more volume. So it's soft. Anybody who is telling you leasing is easy or has been easy, it hasn't been easy. We have not been saying it's been easy. It's a grind and we're putting a lot of resources to it and a lot of activity towards it. But I look at the grocery space today and between A&P, Haggen, which thankful we don't have any, Fresh & Easy is a pending bankruptcy, and it’s been a long time since we've had three grocers out or near bankruptcy. It just continues to be choppy out there, but supply is the real tailwind in the space today; it's not the strength of how retailers are performing.

Brian Finnegan

I would add in terms of some weak retailers, looking at it really as categories, we're seeing some choppiness particularly in the sporting goods category with Sports Chalet on the West Coast. We only have, thankfully, one location of those. And then really outside of Best Buy, the electronic guys, we're keeping an eye on them. The good news is these boxes are opportunities for us to continue to upgrade to better anchor. So we're looking at those on the horizon, and as we kind of do planning in our Raise the Bar pipeline, some of these projects are part of it.

# # #