BRIXMOR®

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4Q 2016 EARNINGS CALL - FINAL TRANSCRIPT **FEBRUARY 2017**

CORPORATE PARTICIPANTS

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PRESENTATION

Stacy Slater

Thank you operator and thank you all for joining today's call. Happy Valentine's Day! With me on the call today are Jim Taylor, Chief Executive Officer and President; and Angela Aman, Executive Vice President and Chief Financial Officer, as well as Mark Horgan, Executive Vice President and Chief Investment Officer; and Brian Finnegan, Executive Vice President, Leasing, 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.

Given the number of participants on the call, we kindly ask that you limit your questions to one or two per person. If you have additional questions regarding the quarter, please re-queue. At this time, it's my pleasure to introduce Jim Taylor.

James Taylor

Thank you, Stacy. Good morning everyone. And thank you for joining our fourth quarter call. I'm very pleased to report on our team's progress and how our progress is reflected both in our results and our outlook as we execute our balanced and self-funded plan to drive sustainable growth. Following that report, I will turn the call over to Angela for a more detailed review of our financial results, outlook and capital plan before opening the call up for your questions. Allow me first to cover some of this year's highlights.

- Bottom line, we delivered FFO per share of $2.07 for the full year, which represents 7% year-over-year growth when you exclude non-cash GAAP income and lease term fees. Reflective of that growth, we also grew our dividend by 6% in the third quarter, while still maintaining a dividend payout ratio of 48%, one of the lowest in this sector.
- We signed a record volume of leases of 13.7 million square feet and achieved an overall leased occupancy of 92.8% at year end, including a record level of small shop leased occupancy of 85.1%. Importantly, for new and renewal signed during the year, we achieved an average cash spread of 16.5%. Again our productivity and growth stack up very well, which as I have said before, speaks to the quality of our team and our real estate.
- From a value add/redevelopment perspective, we completed and delivered 28 anchor repositionings, 12 outparcel buildings and one redevelopment during the year, representing nearly $70 million of investment at an average yield on cost of 12%. Importantly these projects were completed on time and at our projected returns.
- We also ramped up our capital recycling activity, completing $107 million of dispositions of non-core assets at an average cap rate of 6% and closing on the acquisition of $48 million in assets including at Felicita Town Center, a phenomenal Trader Joe's anchored center, directly across the street from one of our existing shopping centers in Escondido, California, also at a 6% cap.
- We continued to strengthen our balance sheet, reducing leverage, increasing our unencumbered ratio, extending our weighted average tenor and amending and extending our bank facilities to provide over $1 billion of excess capacity.
- And finally and importantly, we successfully remediated the material weakness in our system of internal controls. Angela and team have done a truly outstanding job, not only addressing the immediate issue but going much further in designing and implementing a robust internal control and reporting framework that underscores our absolute commitment to transparency. Well done!

These are all great results. But I'm equally excited about the progress we are making in setting the table for long-term growth and value creation. It begins with leasing, where we are replacing obsolete uses with tenant such as LA Fitness, Sprouts, Party City, Michaels, Ross, AMC Theatres, Kroger Marketplace, HomeGoods, Sierra Trading, PETCO and many others at much better rent. And importantly, when we replace obsolete anchors, we see well over 800 basis points of improvement in our small shop occupancy. Accordingly, this box recapture and retenanting is a key element of our strategy for sustainable growth.

Take for example, Sports Authority, which I previewed last quarter, where we have executed leases at three of our five locations and expect shortly to execute leases on the balance with combined overall spreads well north of 50%. We've backfilled these boxes with great tenants such as Dave and Busters, HomeGoods and Aldi. We expect to see follow-on benefit in our small-shop occupancy rate at these centers, which again is an important engine for long-term growth. And with the box recapture, we've also successfully unlocked outparcels that will drive additional value as we execute on them.

Building on this success, we continue to mine opportunities within our portfolio to unlock value. In fact, our attractive rent basis and identified tenant demand led us to proactively recapture additional anchor boxes this past quarter at Villa Monaco and Mira Mesa. We also continue to have conversations with Kmart about their plans with respect to the remaining 18 locations within our portfolio as well as other Kmart boxes that are adjacent to or near our existing centers. Our average in-place rent at the balance of our locations is in the $4 range, which gives us tremendous flexibility to create long-term value through re-tenanting or in many instances through much broader scale redevelopment. Many of you may have seen Friday's announcement that Sears has hired our colleagues at Eastdil to market over a $1 billion of their owned real estate. Needless to say, we are focused here, stay tuned.

In addition to proactively mining value, we are also focused from a leasing perspective on:

- Broadening our reach with retailers in growing segments, such as theaters, entertainment, fitness and restaurants, where we have a demonstrated and growing opportunity to drive competition for our space. In 2016, we executed approximately 900,000 square feet of new leases with tenants in these categories, up nearly 20% compared to the past three years. Further, we continue to build an active pipeline of transactions with a much broader mix of tenants than ever before that deepen the relevance and productivity of our centers.
- We are also focused on reducing options on new leases, allowing us to control the space at lease term. In fact, we've reduced the number of new deals with options from over 50% in 2015 to 38% this past year, and importantly where we do give options, we are focused on increasing the implied growth of the option rent.
- And finally, we are focused on achieving embedded growth through contractual bumps in the leases themselves. This year, we increased the percentage of new deals with rent bumps from 78% in 2015 to 92% this year, and increased our weighted average growth rate from 1.7% in those deals to just over 2% across both anchors and small shops.

Brian and Mike have brought tremendous leadership here in responding to my challenge of continually improving how we execute our business. These may seem like small matters, but that focus drives tremendous value. Our progress again towards achieving these goals speaks to the quality of our team and our real estate.

Speaking of our locations, I'm also pleased to report that under Haig's leadership we've successfully weaned ourselves from relying on third-party service aggregators. By eliminating the middle-man and directly contracting with our key property level service providers, we are now able to implement higher property operating standards without incurring drag on our margins. And most importantly, our centers are improving in appearance. We are measuring that improvement through property scorecards, tenant feedback and secret shoppers. Our tenants are responding very favorably to our efforts, not to mention the communities that our centers serve.

Under Mike Wood's leadership, we've successfully integrated redevelopment teams in each of our four regions, which has allowed us to make significant progress in ramping our active redevelopment pipeline which stood at $0 at the beginning of the year to a $113 million at year end. In the fourth quarter, we added two new redevelopment projects to our active pipeline, which were Sagamore Park Centre in Lafayette, Indiana and Collegeville Shopping Center in Philadelphia.

Expect to see additional progress each quarter as we are well on our way to our goal of delivering $150 to 200 million of redevelopment annually. You will note that we have added additional projects as well to the shadow pipeline which is quickly approaching $1 billion in scale, supporting several years of activity, in assets that we own and control. Mike and team have done an outstanding job here.

Finally, as previously mentioned, Mark and the investments team, have successfully kicked off our capital recycling program. I want to emphasize a couple of things about this activity. First, we've maintained discipline with the capital that we've been entrusted with on both the sell and the buy. Transacting asset-by-asset is difficult and more laborious than portfolio trades. But in this environment, the execution is far, far better. Second, and importantly, we are redeploying proceeds in retail nodes where we already have an existing presence, reducing risk and allowing us to achieve greater ABR growth as we gain more critical mass. In fact, I'm excited to report that we already have a new lease at Felicita at 10% higher than our original underwriting. I'm also excited about some of the deals Mark and team have in their pipeline. Again stay tuned, but count on us to remain disciplined and balanced.

Looking forward, our guidance reflects the progress we continue to make in the execution of our plan. As Angela will cover in a bit more detail shortly, our overall same-store guidance at the midpoint of 2.5% is in the range of our long-term plan before redevelopment despite: One, the impact of these recent tenant bankruptcies, where we've made excellent progress re-leasing space to better tenants, most of which will commence later this year. And two, our investment in proactively recapturing space to ramp-up our redevelopment activity, which in total we expect to drag our NOI growth by 10 basis points to 20 basis points this year, and then gradually bring our overall growth rate above 4%, as we build our annual rate of redevelopment delivery to $150 million to $200 million.

We also believe that we're striking the right balance at the bottom line as we expect to grow our FFO before lease term fees and GAAP non-cash income by 5% at the midpoint of our guidance, while also investing in our long-term growth by executing upon our capital recycling plan and by opportunistically accessing the unsecured debt markets.

In summary, we are almost nine months in with the new team at Brixmor, and I couldn't be more pleased with our execution and outlook on all facets of our plan to drive shareholder value through leasing and operations, value-added redevelopment, and capital recycling. Given the history of this Company, our below market rents, the average age of our centers and their locations within proven retail nodes, I believe that the scope and scale of our opportunity to drive sustainable growth truly stands apart within the open-air sector. And importantly that opportunity is self-funded and largely embedded in what we own and control today.

I'll now turn it over to Angela to address our results and guidance in a bit more detail. I look forward to your questions, and as always appreciate your interest in Brixmor.

Angela Aman

Thanks Jim, and good morning. I'm pleased to report a strong quarter of financial and operational performance as we continue to position Brixmor to deliver sustainable long-term growth and create meaningful value for shareholders.

As Jim noted earlier, last night we filed our 10-K, which confirms the remediation of the material weakness disclosed last year. We have focused our efforts on not only addressing the prior material weakness, but also on continuing to enhance the overall internal control environment and demonstrating our ongoing commitment to transparency and best-in-class disclosure.

FFO for the fourth quarter was $0.53 per share, $0.02 above the prior year, while FFO for the full year was $2.07 per share, $0.01 above the high end of our previous guidance range and $0.10 above the prior year. Excluding non-cash rental income and lease termination fees, FFO per share grew 7% year-over-year, primarily driven by growth in same property NOI, lower interest expense as we've refinanced high-cost secured debt in the unsecured market at lower rates and lower total G&A expense.

Same property NOI growth was 1.6% in the fourth quarter driven by base rent, which contributed 240 basis points during the period, largely in-line with the third quarter, despite additional impact from recent retailer bankruptcies. However, as you'll recall, one-time adjustments recognized in the fourth quarter of 2015 related to the previously announced Audit Committee review, as well as certain one-time ancillary and other income items also recognized in the fourth quarter of last year, significantly limit the comparability of NOI on a year-over-year basis in 4Q 2016. For the full-year, same property NOI growth was 2.5% and was driven almost entirely by higher base rent, which contributed 250 basis points of same-store growth, despite approximately 40 basis points of impact related to retailer disruption, including the bankruptcy of A&P in 2015 and the bankruptcies of several retailers in 2016, including Sports Authority and Hancock Fabrics.

With respect to the balance sheet, at the end of 2016, our debt to cash adjusted EBITDA was 6.9x, down from 7.3x at the end of 2015, driven by both debt reduction and growth in EBITDA. Importantly, during 2016 we made significant strides in also improving our overall financial flexibility. These efforts, which included two unsecured bond issuances totaling $1.1 billion, the repayment of over $900 million of high-cost secured debt and the amendment and extension of our primary credit facility, have expanded our unencumbered asset base to over 76% of NOI versus 62% at year-end 2015, while also increasing our weighted average maturity. During 2017, we have just under $300 million of natural mortgage maturities and then an additional $97 million of secured debt maturing in 2020 that we expect to prepay without penalty at the end of September with a combined rate on all expected 2017 debt repayments of 6.4%. Associated with this prepayment, we expect to recognize a gain on debt extinguishment of approximately $2 million to $3 million or just less than a $0.01 a share. With over $1.1 billion of availability on our Revolver at year-end, we are well positioned to be opportunistic in 2017 with respect to capital markets activity.

Turning to guidance, we introduced 2017 guidance with an FFO range of $2.05 to $2.12 per share, which represents year-over-year growth of approximately 5% at the midpoint of the range, excluding non-cash GAAP rental adjustments and lease termination income, which is driven by same property NOI growth of 2% to 3% and modest savings in total G&A. As a reminder, our guidance does not include expectations of one-time items, including but not limited to non-routine legal expenses.

Our same property NOI growth guidance reflects approximately 20 basis points of drag from 2016 bankruptcy activity, primarily concentrated in the first half of the year and 10 to 20 basis points of net drag related to the acceleration of our redevelopment program. We currently expect the contribution from base rent to trough in the first quarter as a result of the continued impact of 2016 bankruptcy activity as well as seasonal move out activity, before reaccelerating in the second quarter. In addition, I would remind everyone that same property growth in the second quarter of 2016 benefited from the completion of annual CAM and tax reconciliations, which contributed 80 basis points of same property NOI growth in the second quarter. As we do not expect this benefit to reoccur in 2017, this will act as a headwind to same property growth in Q2. As a result, our same property NOI growth rate in the first half of 2017 may be at or below the low-end of our full year guidance range, although we expect to be at or above our full year guidance range in the second half of the year based on a strong pipeline of already executed anchor rent commencement related to our redevelopment pipeline and the backfill of a portion of our 2016 bankruptcy impacted space. This pipeline of executed leases gives us significant visibility into the acceleration we expect to see as we progress through 2017.

Our current guidance range contemplates our expectations for acquisition and disposition activity as well as capital markets activity during 2017. As it relates to both of these items, we will be opportunistic with respect to execution.

As previously mentioned, our guidance range represents approximately 5% year-over-year growth at the midpoint of the range, after adjusting for non-cash GAAP rental income and lease termination fees, and we are delivering this growth while also initiating a capital recycling program and ramping our redevelopment pipeline, demonstrating our commitment to prudently balancing near-term and long-term growth as we execute on our business plan.

QUESTION AND ANSWER

Craig Schmidt- Bank of America

I wonder if you could describe what inning you're in in terms of anchor repositioning. How many have you touched and how many do you think you still have to go?

James Taylor

I think we're in the early innings of that effort. When we came on board, we proactively went through the portfolio to look at not only opportunities that exist in 2016, 2017 and 2018, but also beyond that because it's really a key part of our plan to reposition the center. And as I mentioned in my remarks, we want to benefit from small shop follow through and leasing, which we believe is really the best engine for long-term growth. So I'd say we're in the second or third inning.

Craig Schmidt- Bank of America

And where would you say stabilized occupancy would be for the small shops?

James Taylor

That is driven by couple of things. One, it's driven by the active redevelopment pipeline. If you look at where the occupancy is for those assets that are moving into that pipeline, it's 400 basis points to 500 basis points below our portfolio average, which is already too low. Then as we re-lease those anchor boxes, we see over 800 basis points of benefit in that occupancy and importantly, we also see significant improvement in rate.

The other element, and I alluded to this before, is that we do have assets that we own that are single assets in single markets. Part of our capital recycling strategy is focused on addressing those investment decisions and determining whether or not we should exit that market or grow our presence in it. In markets where we only have one asset, small shop occupancy lags the portfolio by about 500 basis points. So I think through those parallel efforts-redevelopment and capital recycling-you should see over time our small shop occupancy approach 90%.

Jeff Donnelly- Wells Fargo

Jim, just since you brought up in your remarks, I'm just curious about any insights you can share about opportunities you think that might come out of Sears and maybe how you're thinking about those for Brixmor?

James Taylor

Well, as I mentioned, what was announced on Friday was the company's decision to sell a $1 billion of its own real estate. So as that relates to us, it's more applicable to boxes that are adjacent to or approximate to our centers. A lot of our dialog has also been focused on our existing 18 locations and seeing where we can get control of that space back early, where it fits their business plan or doesn't. You should expect to see some announcements from us on that. If you look back at the Company's history over the last two few years we've already recaptured and successfully retenanted five to six boxes. We have 18 left in the portfolio. And again, based on our rent basis in these assets, we have some flexibility that creates value. But listen, they are a partner of ours and we're working with them to understand their plans going forward, and which of our locations may be less integral to them.

Jeff Donnelly- Wells Fargo

And since it's Valentine's Day let me squeak out a two-parter here. The first is for Angela, and I apologize if I missed this in your bridge from 2016 to 2017, there is zero entered for the impact of capital recycling and I just want to clarify, does your 2017 guidance have no assumption for net acquisitions or dispositions? I'm sorry if I missed that.

And maybe as a follow-up, can Mark maybe talk about what he is seeing in pricing for assets on disposition? I'm curious maybe to contrast sort of the dominant grocery power centers versus more commodity or secondary markets.

Angela Aman

I would say with respect to the capital recycling and what's assumed in guidance, while we didn't give specific assumptions around transaction volume, our expectations for what we'll execute over the course of 2017 is absolutely embedded in that bridge we provide in the press release from 2016 to 2017 FFO. That line item also includes the gain on debt extinguishment I mentioned in my prepared remarks, which is $2 million to $3 million. But the capital recycling activity we expect to achieve this year is definitely represented in that line item as well.

Mark Horgan

From a capital recycling perspective and the transactions market, Jim hit what we did in the fourth quarter, and frankly on Felicita, I want to say we're very excited about that acquisition. We think it's a great example of our go-forward clustering strategy to own assets, in nodes that we think are vibrant and long-term growers. The other question we get on the transactions market and I'm sure you've heard is what's going on with respect to treasury rates? There does seem to be some impact on cap rates due to the rise in treasury rates, but it's nowhere near the straight movement in the treasury rates. The biggest impact is in the non-grocery anchored power centers where landlords have little control. We continue to see depth across our markets in both coastal and non-coastal markets.

As Jim mentioned, we'll be continuing, on the sell-side, to grind through asset sales one by one because we think smaller check sizes certainly widen the buyer pool. We've seen some portfolio trades out there where we think they traded at a discount simply because of the lack of depth in a larger buyer in certain markets. Ultimately from our perspective on the buy-side, if we see a widening in cap rates, we think that's a great opportunity for us as we recycle capital into our target markets at yields that may be slightly wider than we could have otherwise for the last couple of years.

Christy McElroy- Citi

Can you provide some more details around your assumption for additional debt issuance this year- the size of the bond deal, timing, et cetera? And where do you expect to end the year on a net debt to EBITDA basis?

Angela Aman

I think what's important as we think about capital markets activity over the course of 2017 is to note that all of the stuff that we did during 2016 really positions us to be very opportunistic over the course of the year- the two bond deals and the recast of the credit facility. That said, I think as you think about a range of potential executions during 2017, I think it's fair to assume that we at least raise enough in the capital markets, if the environment is conducive to address the natural mortgage maturities and that additional prepayment amount that I had mentioned, so give or take $400 million. At the other end, we may start addressing future debt maturities as well, but that will be opportunistic and driven by market conditions.

Christy McElroy- Citi

And can you talk about The Shops at Riverhead and the increasing cost there? Looks like you added a Sierra Trading Post to the mix, but also multitenant retail building.

James Taylor

We did Christy, thank you for highlighting that. We've expanded that project given our successful leasing now into phase two, which does include a Sierra Trading Post and an outparcel building as well. As a result of that, our yield ticked from an 11 to 10, but we are very excited about the progress we're seeing on the leasing there and importantly, the pace at which we're getting that project underway. When we came in, I felt like that was one project in particular that needed a bit more focus and attention with respect to execution and making sure that we were delivering in time for the tenant leases that we were signing. I think Mike Wood and team have done a good job of doing that, which has given us confidence into moving into the second phase. Again, a 10% return, I think we're creating tremendous value in that quarter of Long Island and I'm pleased with the merchandizing momentum we're seeing there.

Ki Bin Kim- SunTrust

How do your rents compare to the market rents around your assets for comparable quality?

James Taylor

I think that what we are seeing is bearing out. The best data points you can look to is where we are signing recent bankrupt space that we're getting back. Where you are seeing us achieving spreads on those boxes- better than 50% at our assets. And if you look over the course of the year more broadly on the portfolio we are signing a tremendous volume of new leases, nearly $7 million of new and renewals, which I think are the best indicator of the mark-to-market. You are seeing us achieving high-mid teens in the most recent quarter and strong mid-teens for the full year. So I think that our rents characteristically across the portfolio are below market in the markets we're doing business in. One of the interesting byproducts too of clustering our assets in our market is we get even smarter about where we can drive rent rents. You know I mentioned Felicita Plaza in Escondido, California, where now we have assets on both sides of the street, we're actually driving better ABR growth than what was in market. And we're even seeing benefit out of some of the assets that we have in our acquisition pipeline in terms of capturing tenant deal flow in those markets. I think our assets are characteristically pretty below-market and I think it's a function of lack of capital. As I mentioned, our initiatives under property operations- our properties just didn't look good. We need to make them look better and I'm real pleased with the progress Haig is making there, although we've got more work to do. And then certainly again, the job being done by the leasing team, I think really speaks to that embedded mark.

Ki Bin Kim- SunTrust

And as it relates to Sears commentary, I'm sure you've already done this, of the 18 boxes that you own, if you had to divide them into ones that you want back immediately where it seems like it's easy money versus ones that are a bit hairier where you want some more time what does that kind of segmentation profile look like?

James Taylor

The way I think about it is it breaks into roughly thirds. There's about a third that I think are going to trigger a lot of value creation through broader redevelopment. There's about a third that we're going to trigger value creation through just retenanting the box and about a third where we're going to work to replace the rent with a better use- try to derive a decent return on the capital we have. But there are few that I'm truly worried about and in part it's because the rent basis is so low. In some instances we're getting $2 rents on these boxes. So there's a variety of options that we can get after to drive better outcomes where those particular boxes no longer fit within the strategy. And then we're also looking at boxes that are at or near our centers to see where they could be opportunities and then beyond that, as you would expect us to, we're looking at the Kmart portfolio in its entirety, and figuring out where we have opportunities to play offense, and where we should be playing some defense. And within that latter category, we've identified probably 10 centers to 12 centers that we think need additional focus in terms of rolling boxes, where our rents are below the market in the event anything happens with the Kmart supply we're competing with.

Ki Bin Kim- SunTrust

Did you guys incorporate some measure of potential store closures from Payless and Mattress Firm in your guidance?

Angela Aman

Not explicitly, but certainly the range contemplates some amount of retailer disruption as we move through this year- both sort of on the top line as well as slightly elevated bad debt expense.

Todd Thomas- KeyBanc

Following up on that Sears or the Kmart commentary related to the adjacent or nearby properties, is this something that you would look to do on a larger scale basis, perhaps in a joint venture format or would it be something much more surgical that Brixmor takes on a wholly-owned basis?

James Taylor

It's really much more at the property level. Just like our capital recycling, I think that's the most prudent way to allocate capital for us. I don't believe in complicating our balance sheet with a joint venture. If we do something like that we would need to get enough value creation through that venture, whether it be fees and promotions, to offset the complexity it would introduce to our business plan. It's hard work looking asset-by- asset in terms of where the opportunities are as well as where we have a potential threat. And again, I want to emphasize that we're really partnering with Kmart here. We have a long-term relationship with them- it's a very successful one. As they go through transitions, as many of our retailers have and many of our retailers will, we just want to make sure that partnership is a strong one, so that we're well positioned to continue to drive our business plan.

Todd Thomas- KeyBanc

And then Jim, it seems like you've seen more headlines and news about online grocery and pickup and delivery models in recent months and if you fast forward a few years, where you see the puck moving and what are you doing as you think about changes that are taking place to the traditional grocery model?

James Taylor

Well, you actually highlight something that I think is very important and that is many of our grocers, like Kroger for example, are implementing these click and pickup programs that are really valuing the time of their consumer and they are seeing great sales productivity as a result of having store employees engage with the customer, deliver their groceries to their car, offer items that maybe were purchased on last visits and improve that overall experience. So, I'm really pleased to see the grocers responding to and evolving to what we as consumers demand from an experience standpoint, as well as from valuing the consumer's time.

And I think in addition to the click programs, you're seeing a lot of the grocers thinking about how they remerchandise the fronts of their stores, as well as how they think about the entrances to their stores. And we are partnering with them, as we think about ways to accretively put capital into facades and other things to make the overall shopper experience better. It's against the backdrop of online retailers I think increasingly recognizing that that physical connection with the consumer is a very important one in terms of delivering service. And so, I think it's a model that will continue to evolve, as we look at the near-term trends or sales productivity of our grocers remains strong. And certainly, as we talk with many of them about their expansion plans, as we demonstrated just in the last quarter, we're seeing them invest in new locations, and make their existing locations better. That latter category is an area where we're particularly focused on partnering with them, because we do have some older boxes, older groceries in our portfolio that I think could stand an uplift.

Jeremy Metz- UBS

Did you say what's baked in the guidance for releasing spreads? Jim, I mean, you talked about a significant amount of mark-to-market opportunity still in portfolio- spreads have been strong in that 10% to 15% range. Just wondering if we should expect to see that trend continue here in 2017?

James Taylor

We haven't provided specific guidance, but we certainly expect to see it continue.

Brian Finnegan

As we look out at the runway, particularly in the anchor space, we've got roughly a 170 boxes coming up in the next three years in rents in the $8 range, we're signing those deals at $12. So we feel pretty good about the mark-to-market throughout the portfolio in the future.

Jeremy Metz- UBS

In your opening remarks you talked a lot about improving internal controls, the integration of teams, and the elimination of in the third-party aggregators. I was just wondering how we should think about the impact on the margins going forward, as a result of all this. On one hand, you obviously have more controls and better overall execution, on the other, internalizing a lot of these processes comes at a cost, so how are you thinking about the margin impact?

James Taylor

Let's talk about the third-party service aggregator, because that's really the biggest thing that we're doing. What we've seen to date is that we are able to negotiate with the service providers, be it that snow removal company or the landscape providers or the portering services, sweeping, et cetera, directly. And actually getting a higher level of service by doing that. It's a lot more work than certainly delegating that responsibility to one of these service aggregators. But what we've seen so far, and what I'm pleased with is that we've been able to hold our margins. And importantly our reimbursable expenses for our tenants aren't going up significantly. I think they like what they are seeing. But let me just share with you philosophically, if I had to give up 10 basis points to 20 basis points of margin, which I don't expect, but if doing so made the centers better and positions them in a way to grow long-term, I'd certainly think about that very hard because I think that would be what you'd expect me to do as an owner. With all that said, we haven't seen any margin deterioration.

As it relates to other things that we're doing internally in terms of our reporting, our systems, et cetera, we've really been doing that with a focus on remaining net-neutral from a G&A perspective. Our G&A this past year was obviously elevated because of some one-time items, but if you look at where our guidance is, it's roughly in line with where we were in 2015 and we've been very conscious about that to make sure that we are being frugal with those G&A dollars, and that we're being good fiduciaries for our investment in human capital as well as the real estate itself.

So we're evolving. We're getting better. I continue to tell the team that we're never going to get there, but we're continually getting better. So you see us also measuring that. And I refer to some of that in terms of our leasing activity. We're measuring it in terms of our property appearance. We're obviously measuring it in terms of our redevelopment yields and pipeline, all with the view of continuing to get better and exploit the opportunity that we think we have.

Wes Golladay- RBC Capital

When we look at the same-store NOI growth of 2% to 3%, how much of that comes from annual rent bumps and where do you see that going forward, let's say 2018 and 2019, with the new leases you're signing?

Angela Aman

Our contractual rent bumps contribute just over 100 basis points, call it a 110 basis points, to same property growth in a year, but as Jim talked extensively about in his remarks, growing that embedded rent growth across the portfolio has been a huge focus for the leasing team. And so our hope is that we can continue to ratchet that number higher over the next couple of years, through execution, get it up into the 120 basis points, 130 basis points range.

Wes Golladay- RBC Capital

And then we talked about the clustering strategy. How should we look at that? Do you have a certain amount of GLA in one region or is it number of properties and do you just group, maybe Southern California together? Is it San Diego? We saw you added the third property there. How should we view the clustering?

James Taylor

Our clustering is really identifying what the retail node is and what the supply demand fundamentals are within that node. And we're doing all that we can to increase our presence and our share within those nodes. It's less about a nominal number of square footage than it is about having a meaningful share of that market, so we highlighted the transaction that we've done in Escondido, California. Look in the coming months to see us doing similar type things in other markets where maybe we have one asset or two assets and then we're having three and then four. Again, we're just really strong believers in the ABR benefit of doing so. It's less about the operating synergies. It's really about what happens to that top line of rental rates in markets where you own three to four assets. And I mentioned the experience we've had in Felicita since bringing that onboard- that is not an isolated phenomenon. By owning more in a node, retailers have to come talk to you, and you just get a much better perspective on where rents can be driven than if you own just one asset.

Michael Mueller- JPMorgan

For the non-cash rent burn off, can you talk a little bit about the outlook for the next couple of years? What the visibility looks like on that?

Some of the moving parts around what the decrease or the headwind could be relative to this year? And then, also did you talk about where year-end 2017 occupancy is expected to be?

Angela Aman

First on the non-cash question, outside of a straight line, which is obviously going to depend upon the pool of leases signed and leases rolling off in any period, from a FAS 141 perspective, which is where you've seen the most roll down over the last several years for us, you should expect moving from 2017 to 2018 and then beyond that the annual burn off in FAS 141 income is around $4 million to $5 million a year. So, hopefully that provides a little more clarity there. There is some disclosure about that in the 10-K as well.

In terms of the year-end occupancy target or objective for 2017, we didn't provide a firm number. As I sort of look at the trajectory over the course of the year, as I talked about it with respect to NOI, I think the same trend is holding with respect to occupancy. You'll see us step-back a little bit in the first quarter as a result of seasonal move out activity, and then continue to ramp through the end of the year as we have anchor rent commencements in the redevelopment portfolio and with respect to some of the bankrupt space.

Vincent Chao- Deutsche Bank

So going back to some of the comments about the leasing changes that you've made that don't necessarily show up in the spreads that we always look at, which was helpful, I'm just curious, if there is any way to parse out how much of that reflects improving demand versus changes in how you are incentivizing the leasing force or how you are prioritizing how the leases are structured? I'm talking about the comments about the number of options and contractual rent bumps and things like that.

James Taylor

One of the great things we do as a company is every week we get together and we look at the productivity for that week. The entire leasing team convenes and we look at 40 deals, 50 deals, 60 deals that are coming through in that particular week. And that opportunity is really a chance for us to focus in on some of these key themes and it's really just about paying attention to it. I mean I hate to say it- it's focus. And yes, we are aligning compensation to be the consistent with the realization of NOI goals and in some of these other goals rather than just occupancy. But Brian and Mike have done a really good job of moving from an emphasis focus on driving occupancy and making sure that we're doing the right deal for the space- that it’s the right merchant that we're doing everything that we can to drive that ABR. And then in addition, we're seeing improvements in options and improvements in the embedded rent bump. So I'd love to tell you there is a magic to it, but it really comes down to leadership and focus and I think Brian has done a really good job of getting the team in the field to step-up and produce. So that's really it. I wish I could give you some grand theoretical answer, but it really is about focus.

Vincent Chao- Deutsche Bank

No, that's very helpful. And then just another question on totally different topic. Just looking at the value enhancing cap-ex guidance, I think it's a $150 million to $200 million. If I just look at sort of all the different buckets that you outlined in the supplemental in terms of outparcel developments, redevelopments, developments and anchor repositionings, and I just think about sort of costs to date versus the total costs- I'm coming up with like a $107 million, so I was just curious, if there is anything else that we're missing that's not captured in the Supplemental, or if there is some speculative projects that are embedded in there, that are not currently under construction?

James Taylor

Yeah, so we are delivering every quarter new projects. So we delivered two more in the fourth quarter. Expect to see us continue to ramp up that activity through the course of the year as we get through entitlements, as we get leases signed, et cetera. What you are seeing running through our numbers right now, and we alluded to it a couple of times, is, as we ramp that activity we're recapturing space, and we're taking down boxes like we did at Villa Monaco and Mira Mesa. So our range of spend, which I think it's a little bit lower than what you have, I think it's $120 million to $150 million- is what we expect to spend in the year- reflects not just what we have actively going on right now, but what we expect to continue to add to the pipeline to the year. Again though, with our long-term goals, just to be really clear, that we want to ramp that redevelopment activity to $150 million to $200 million annually and we're working hard on that. We are not only teeing up projects for the active pipeline, we're moving projects through the shadow pipeline. And we're doing our best to give you some visibility on that, which is why, if you look at what we've done with our shadow pipeline, you'll see that continues to grow as we tee-up projects for later in the year and beyond.

Daniel Santos- Sandler O’Neill

The first one is on the individual asset transactions, I'm just wondering, should we be thinking that the smaller one-off transactions are better because you can get tighter pricing or do you find they're more difficult because of financing availability?

James Taylor

Well, I think it's a function of both things, right? When you are out in the market with a $200 million or $300 million portfolio, you have a much more limited universe of buyers than when you have an asset that's $20 million or $25 million. We see a much broader audience in the smaller range- it’s just supply and demand. And certainly, we're still seeing the financing markets provide buyers with liquidity at the asset level, just as at the portfolio level. But the real driver there, in our opinion, is the equity and how much of a field you have as you go to sell an asset that's $20 million to $25 million versus selling a portfolio. I do want to highlight here, while we're working really hard to get the best return on the capital that we've been entrusted with, we're always going to be opportunistic. So, if there is a portfolio trade that makes sense to us, we will execute upon it and then report to you on why we did it and what the parameters were.

Daniel Santos- Sandler O'Neill

Are you expecting Moody's to remove their negative outlook, and if so, should that impact that pricing?

Angela Aman

It's a good question. They've remained at negative outlook. As I understand it, I think we accomplished most of what they were looking for. I think the one gating item was the remediation of the material weakness, which was announced last night. So we're certainly hopeful that there will be movement there, and across the rating spectrum. I think as we reflect on everything that's been done and how we're positioned from a balance sheet perspective going forward, we certainly hope that we don't stay at low BBB indefinitely and we continue to move up.

Floris Van Dijkum- Boenning & Scattergood

On the more near-term, the leased to billed delta was around 2.1%. What do you expect that to be on a normalized basis? And if it's going to a normalized basis, when can we expect that to get to that point?

James Taylor

I think it's definitely gapped by probably 40 basis points or 50 basis points as a result of the bankruptcies that we saw. It's a bit wider than it should be historically, but you're always going to have a gap between leased and billed, I hope, as you continue to get ahead of space and lease it up. So on a go-forward basis, I would expect it to tighten, and tighten through the course of the year, but certainly we're never going to close that gap fully.

Floris Van Dijkum- Boenning & Scattergood

Maybe put your strategic hat on a little bit more, but with all these things that you're planning to do with the portfolio including redeveloping all your historic anchor boxes and marking your rents to market, what do you think the portfolio looks like in five years' time? What do you think happens to your ABR and also to the average number of assets? If you were to put a sort of more strategic vision on the outlook.

James Taylor

We will likely own fewer assets in five years and I'll be really disappointed if we can't point to the clustering that's occurred during that capital recycling period. And we will, importantly drive growth in our ABR, not manufacture it through capital recycling, but drive growth through that ABR in terms of rollover, making our centers better and driving that underlying cash flow growth predominately. So I expect in five years, you are going to see a much higher ABR and you're going to see a much more clustered portfolio. Probably fewer assets too. Down from the 515 or so that we own today as we recycle out of single asset markets and assets that we think don't present opportunities for long-term growth.

Linda Tsai- Barclays

When you look at the longer term outlook for grocers, do you expect to see more consolidation? It seems like there is still healthy demand with specialty grocers expanding their footprints, but maybe there could be disintermediation from the Internet that may eventually weigh on weaker competitors similar to what we've seen with soft-line retailers at the malls.

James Taylor

Well, I don't think you're going to quite see that within the grocery segment what's happened with the soft-line retailers. I do think that there are going to be opportunities for consolidation particularly with some of the specialty grocers that you have out there that are operating really well and would represent attractive growth vehicles for traditional grocers or perhaps even businesses that aren't traditional grocers today. So, I expect that you may see some continued consolidation in that space, but again, these are businesses that have been and will continue to be competitive. These operators have done very well in an environment of tight margins and I expect them to continue to be healthy as we move forward.

Karin Ford- MUFG

I wanted to go back to the capital recycling plan in 2017. I know you're not talking about volumes today, but can you just tell us what you think the expected cap rate spread will be between acquisitions and dispositions?

James Taylor

I think that you can expect that cap rate range to be 100 basis points to 150 basis points- again it depends. We are seeing some upward pressure in cap rates on both the buy and the sell. But we're quite confident in our ability to continue to recycle in this environment and do so in a way that balances the dilutive impacts during the year. We specifically did not provide volume guidance, although we certainly have internal goals and assets that we have targeted on both the buy and the sell. And that's really quite intentional, because we want to always maintain our discipline. We do not want to be pressured to hit a certain level of capital recycling in a year, rather we want to deliver through our results. And then show you that we are able to do that and still maintain that balance of not diluting our long-term growth.

Karin Ford- MUFG

Where do you think you could raise 10-year unsecured debt today?

Angela Aman

I think if you look at secondary levels for a 10-year debt, it would be somewhere in the 170 basis point range, so somewhere around there.

James Taylor

But, you know if we were to go into market, we'd expect to do better than secondary. And again that's part of why we always want to be opportunistic. That's kind of where the levels are as Angela speaks.

Haendel St. Juste- Mizuho

I mean we've talked a bit about the lower end of the transaction market quality wise, moving cap rates, but perhaps you can talk a bit about the higher end, the higher quality perhaps the type of assets you'd like to buy. I'm curious as to the mindset of the sellers these days, are they standing firm on price in the face of rising rates, or are they more willing to engage in conversations? And any sense of the bid-ask spread there too would be appreciated.

James Taylor

Again, we have seen some movement in cap rates on both the buy and the sell. We're not competing with everybody and their brother to be in five or six coastal markets. We can't really comment real-time in terms of what's happening there. But we are seeing the ability to, on the buy, get slightly better cap rates going in than we would've gotten six months ago, just like on the sell we're seeing slightly higher cap rates. And that's across the spectrum.

Mark Horgan

One, we have seen even post-election with the rise in treasury rates, we have still seen some tight trades at assets that we otherwise would have liked. We're trying to be disciplined with where we're allocating our capital. And then secondly, I think if you saw the market last year, you had some very aggressive expectations on pricing from brokers, and I think you saw a fair amount of assets that hit the market and didn't trade. So as you look at the owners today, I think they are being more realistic as to be in the market if they want to transact and we're going to take advantage of that when we can.

Haendel St. Juste- Mizuho

The plan for the $1 billion term loan maturing in 2018, just curious again what you're thinking there? And then obviously, the floating rate element of it, just curious on what your appetite for fixed rate or maybe increasing the proportion of fixed rate debt in your capital stack is?

Angela Aman

We're about mid-80% fixed rate today, which reflects $1.4 billion of swaps we did against term loan debt back in October. So I think from a fixed rate exposure perspective, we're kind of right where we should be. What we did leave floating to your first question was about $700 million of the $1 billion term loan and that was really just to enable us to be opportunistic with respect to terming that out over the course of 2017 or into early 2018. So we're looking at a variety of options and execution obviously in the unsecured bond market is definitely on the table- replacing some portion of that term debt is definitely on the table- maybe through disposition proceeds or something else. So we're evaluating a range of options, certainly all of which are reflected in our guidance for 2017.

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