BRIXMOR®

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2Q 2017 EARNINGS CALL - FINAL TRANSCRIPT **AUGUST 2017**

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PRESENTATION

Stacy Slater

Thank you, operator, and thank you all for joining Brixmor's second quarter conference call. With me on the call today are Jim Taylor, Chief Executive Officer and President; and Steve Gallagher, Senior Vice President and Chief Accounting 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. Angela Aman, Executive Vice President and Chief Financial Officer, is on maternity leave and will return for our third quarter call.

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 statement. 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 turn the call over to our CEO, Jim Taylor.

James Taylor

Thank you Stacy. Good morning everyone and thank you for joining our call. I'm incredibly pleased with and grateful to the Brixmor team for yet another strong quarter of outperformance as we execute on our long-term plan. There are a few points I'd like to highlight prior to turning the call over to Steve Gallagher for a more detailed discussion of our results, and then to you for your questions.

First, we and others continue to demonstrate that disruption in the retail environment can actually be beneficial. We tip our hat to the recently reported strong results of our good friends at Kimco, Weingarten and Kite, which underscore the broader truth that demand to be in well-located, open-air centers remained strong. In fact, this quarter's analysis by our National Accounts Team of over 150 tenants across open-air segments such as grocery, off-price, fitness, entertainment, home goods, restaurant, health and beauty and others indicated plans to open up over 12,500 new stores in the next twelve months. And importantly, that count does not include the thousands of new openings planned for regional and local tenants.

The open-air segment is thriving as an accessible, convenient and cost-effective alternative for retailers who require a physical presence to acquire and serve their customers. Now having tipped our hat to the strong performance of our peers in the open-air segment, I must point out that our leasing productivity and cash rollover growth truly stand apart. I continue to believe we are best positioned amongst our peers for strong growth, given the locations of our centers, our people and improved platform, and our attractive rent basis during a period in which retailers are increasingly focused on store profitability and occupancy cost.

Now let's dig into our results. During the quarter, we executed over 500 leases, representing 3.0 million feet, including 1.9 million square feet of new and renewal leases at average spreads of nearly 17% and new lease spreads of 36%. When you include options, we've created over $42 million of new incremental ABR over the trailing four quarters. At quarter end, we had $33.0 million in ABR signed and not yet commenced, which provides us tailwinds into the latter part of this year and into next. Our new lease ABR per square foot of $16.51 is the highest since the IPO; and rest assured, we're not "buying rents," as seen in our net effective rent disclosure. And our visibility on future rollover growth remains strong. Consider that our new anchor rents this quarter averaged $12.66, which compares very favorably to the $8.25 average in-place rents for anchors expiring without options over the next four years. Again, basis truly matters to grow.

We're generating this leasing with better retailers, including new to portfolio tenants, such as HomeSense, the new T.J. Maxx concept, BevMo!, Lucky's Market, and innovative quick service restaurants, such as my all-time favorites Duck Donuts and SuperChix. In fact, we executed 35 new restaurant leases this quarter, and I'm extremely pleased with the productivity of our new outparcel team, which came on board last September and already has 40 deals executed representing over $5.0 million of net new rent. We also continue to focus on the quality of our intrinsic lease terms, with 94% of our new deals this quarter having rent bumps at an average of 2.2%, versus our in place average closer to 1.0%.

Our strong leasing productivity kept overall leased occupancy at 92.0%, despite approximately 70 basis points of bankruptcy move-outs. Small shop occupancy increased sequentially to 85.0% or 80 basis points over the prior year, and importantly, our receivables aging shows continued health of our small shop tenants. It's important here to note that we do expect a 50 basis point headwind to small shop occupancy in the third quarter as a result of lease rejections from Payless Shoes and rue21, but we continue to see good demand from categories in this size range. As we look ahead, our overall leasing pipeline has over 430 new and renewal leases for over 2.5 million square feet, slightly ahead of where we were last quarter and as strong as it's been since we joined.

Second, as it relates to our plan, our reinvestment program continues to deliver and expand, adding eight projects at expected yields of 9% and completing four projects at double-digit returns this quarter. And while I'm not going to flip a deck with you this morning, I do encourage you to explore the slide deck we posted last night on our website that illustrates our continued progress in upgrading our centers. We are taking part in a variety of property tours over the next few months, and I ask that you reach out to Stacy for more information.

Projects added to our pipeline this quarter included a new Lucky's Market at Hunters Creek Plaza in Orlando and an LA Fitness at High Point in Chicago. Our total in-process reinvestment pipeline now sits at 40 projects totaling $258 million at a weighted average expected return of 10%. We also added to our future redevelopment pipeline as you'll notice in our supplement, with eight new projects, and are confident that we will continue to accelerate the pace at which we move value accretive projects into the active pipeline given our current leasing and tenant demand.

The third element of our strategic plan, capital recycling. We continue to accelerate our disposition efforts to capitalize on favorable private market valuations and to build liquidity, while also tightening the acquisitions spigot, positioning us to take advantage of opportunities that may evolve from the current landscape. We now expect to be a net seller for 2017. We executed the sale this quarter of three properties and two buildings for $75 million in gross proceeds at an average cap rate of 7%. We also closed on an additional $21 million sale in July at a mid-6% cap rate and have another seven properties under contract for sale at approximately $115 million, most of which is expected to close this quarter.

The fourth element of our plan, we continue to strengthen our balance sheet, reducing leverage by $100 million from the first quarter and completing a $500 million bond offering, and subsequent to quarter end, a new $300 million seven-year term loan, further improving our duration and laddering. Both these refinancings were ahead of our original timing expectations, but we felt it important to address future maturities opportunistically in this favorable debt market. We continue to enjoy strong support, and are grateful for that support, from both the fixed income community and the lending community. In fact, over the last 14 months, we've raised over $5 billion of unsecured debt and put ourselves in a position where we have maximum flexibility and capacity. That allows us to continue to capitalize on growth opportunities embedded in what we own and control, regardless of inevitable market volatility.

Finally, a few thoughts on guidance for the balance of the year. As we noted last quarter, we expect same property ABR growth to trough this quarter, given the timing of bankruptcy activity, before reaccelerating in the fourth quarter. We expect same property NOI to follow a similar trend, with the third quarter remaining at or below the low end of our full-year guidance range of 2% to 3%. Now, importantly the acceleration we expect in the fourth quarter and into next year is driven by leases that have already been executed, which includes our successful efforts with the recaptured Sports Authority boxes, where we have executed leases on all of those boxes with spreads over 50%. In fact, we've now signed leases and LOIs on nearly 90% of our 2016 bankruptcies at average overall spreads of 27%. This progress has allowed us to reduce the potential impact of the 2016 bankruptcies this year from 40 basis points to 25 basis points, truly excellent execution by Brian, Mike, and the team. We are actively working through our 2017 bankruptcies and now expect their impact this year to be about 60 basis points. Where we end up in the current year same-store range will be driven primarily by the timing of rent commencements for those signed leases, as well as levels of space proactively recaptured to setup additional value accretive reinvestments.

Turning to FFO, we've maintained our range of $2.05 to $2.12. As mentioned previously, we do expect to continue to ramp disposition activity and become a net seller. Where we end in our range will be primarily driven by net disposition activity actually closed in the balance of the year. We will update the range based on actual closings, but I expect that the capital recycling impact could be a few cents of impact given that we do not currently expect any significant acquisitions for the balance of the year.

Allow me in closing to comment briefly on our most important asset, our people. Great real estate matters, but great people matter even more. Over the last 12 months we've changed over 80 positions, upgrading talent, while not losing a step, a tribute to a truly great team. I'm particularly excited to welcome Bill Brown to lead our redevelopment efforts. Bill is an experienced and talented professional having led the redevelopment efforts at Equity One and Kimco previously. Like the addition of Vince Corno to run our Midwest division, Bill is a seasoned pro who provides our growing redevelopment efforts experienced leadership. Vince and Bill, along with other new folks such as Andrew Gracey, Steve Gallagher, Dan Sutherland, Dan Costello, Jason White, Tonya Creekmore, Sean McLaughlin and many more demonstrate the ability of Brixmor to continue to attract and retain the very best talent, which is key to our long-term sustained outperformance.

And perhaps most important of all, we are very, very excited to announce the arrival of our future CEO, Margot Elizabeth, Angela Aman's daughter who was born on July 20. I suggested the name "Brixie," but I have to admit, Margot Elizabeth is a beautiful name for a beautiful baby girl who looks like a movie star. Margot and mom are doing great and doing their best to avoid the paparazzi.

Before I turn the call to Steve for some additional color on our financial results and capital transactions, I ask you each to think about this – if your measure of the quality of the business is its ability to drive cash flow growth through a period of disruption, then we here at Brixmor go well beyond checking the box. Steve?

Steven Gallagher

Thanks, Jim, and good morning. FFO for the second quarter was $0.53 per share, representing growth of 3.6%, excluding non-cash GAAP rental adjustments and lease termination fees. This growth was primarily driven by higher same property NOI and lower G&A, related to the management transition in the second quarter of 2016.

Same property NOI growth was 1.3% in the second quarter, consistent with the indication we gave on last quarter's call that this quarter's growth rate would be at or below the low end of our full-year guidance range of 2% to 3%. Base rent contributed 260 basis points to same property growth. This contribution was primarily offset by net recoveries, which, as expected, detracted 100 basis points from same property growth during the quarter. As we have discussed on prior calls, the second quarter of 2016 benefited from the completion of annual CAM and tax reconciliations, as well as lower operating costs due to the management transition last year. As mentioned last quarter, our full year expectation for operating cost growth remains under 2%, as we focus on improving the look and feel of our shopping centers, while remaining disciplined about every dollar of capital spent.

With respect to the balance sheet, during the second quarter, we issued $500 million of seven-year unsecured debt at a rate of 3.65%, using the proceeds to repay $283 million of secured maturities at a rate of 6.38%, an additional $100 million outstanding on our Tranche A Term Loan, as well as amounts outstanding on our revolver. We completed the quarter with zero drawn on our $1.25 billion revolver. Last night, we also announced the closing of a $300 million, seven-year unsecured term loan. The proceeds from the new term loan were used to repay an additional $300 million of Tranche A Term Loan, which matures in 2018. As of today, we have no remaining 2017 maturities and only $210 million of remaining 2018 maturities, putting us in a position where we won't have to access the capital markets until 2019. Our unencumbered asset base now totals approximately 80% of our total NOI, and our weighted average maturity on a pro forma basis for the new term loan is 5.6 years, representing a substantial improvement over the last 18 months. As a reminder, in September we anticipate the prepayment of an additional $97 million of secured debt maturing in 2020 at a rate of 6.3%. As we have mentioned on previous calls, associated with this prepayment, we expect to recognize a gain on debt extinguishment of approximately $2 million to $3 million in the third quarter, while we originally expected a gain on debt extinguishment to contribute approximately $0.01 per share to FFO during 2017. Early repayments of our Tranche A Term Loan have resulted in losses on debt extinguishment, which we now expect to largely offset the gain expected in the third quarter.

And with that, I will turn the call over to the operator for Q&A.

QUESTION AND ANSWER

Christy McElroy– Citi

Jim, you discussed an accelerated pace of dispositions, it sounds like you expect you could end up a net seller for the year. Just to be clear, that few cents of potential dilutive impact that you think you could see is not currently in your guidance, correct?

James Taylor

Yeah.

Christy McElroy- Citi

And does that assume that the net disposition proceeds would be allocated to debt pay down? And maybe you could provide a little bit more color on sort of the average cap rates on your Q2 disposition activity and what you're expecting for the balance of the year?

James Taylor

Thanks, Christy. I appreciate the question. We do expect to be a net seller this year. The cap rates that we're seeing, as I mentioned in my prepared remarks, for what we sold in the quarter were about 7%. What we sold after the quarter was in the mid-6s. And we continue to see pretty strong demand as it relates to investors looking for investments in the open-air segment.

In terms of impact on guidance, again, as I alluded to our current range can handle a wide range of outcomes. But we do expect, if we're a net seller to use these proceeds to pay-off debt. And we'll update our guidance as those transactions actually close.

Christy McElroy- Citi

Your net effective rent numbers are pretty stable, but we have seen a pickup in TIs from some of your peers. Given all the box re-tenanting, are you seeing more pressure to increase TIs to maintain the level of spreads that you've been showing? Is that something that we could potentially see pickup in coming quarters as you re-lease more of the bankruptcy space?

Brian Finnegan

As you mentioned, our TIs are in line with where they've been on a trailing 12 months, and our net effective rents continue to be strong. I would say that, for some users like entertainment, fitness or when we're demising a box, those TIs can be a little bit higher, but typically we're also getting higher rents, and we're more than happy with the returns that we're getting on those investments. Look competition for space leads to the best outcome in rent and TI. So, the more competition that our team is able to draw up for these spaces, which we have been seeing, the better outcomes we'll have. So, we feel pretty good about where we're at.

Todd Thomas- KeyBanc

In terms of the leased rate and economic occupancy, I think you talked about the 50 basis point headwind to the small shop leasing in the third quarter from rue21 and Payless. Can you just help us understand though where those metrics might bottom in the second half of the year, what's in the model at year end?

James Taylor

Again, we do expect the trough in the third quarter, when you think about the total impact of bankruptcies from 2017 on the year, it's about 60 basis points. Now a lot of that rent was in our first two quarters. So obviously, we're expecting the impact in the latter part of the year as those tenants are now out and out of occupancy, as well as no longer rent-paying. And we expect the reacceleration actually in the fourth quarter, given the progress that we've made re-leasing not only that space, but as I mentioned before the 2016 bankruptcies.

So when you take a step back Todd, and you think about what the potential impact could have been on this year, it could've been much more significant. Just on the 2016 bankruptcies alone, it could've been more than double what the current impact is. So I'm really pleased with the efforts of the team to get after that – getting that space leased. And as I alluded to, and I think this is an important point, we're leasing that space to better tenants. And one of the things I didn't highlight on the call is that we are replacing some of these anchor boxes; we're seeing great follow through still in our small shop occupancy. So some timing disruption in the latter part of this year without a doubt, but I'm very encouraged in terms of how it's setting itself for future growth.

Todd Thomas- KeyBanc

And then, Jim, you've got a Kroger, Publix, Ahold Delhaize, Albertsons they're all top tenants in the portfolio and I was just wondering what you think about the changing grocer landscape; how you're thinking about the portfolio going forward given both Lidl expansion in the U.S. and the Amazon-Whole Foods news?

And maybe for Mark, if you could comment then if there has been sort of any change in thought process from your end either in investments or in the capital markets or just more broadly around grocery-anchored centers?

James Taylor

Hey, Todd, that's a four for one question there. Let me start, and just tell you that the grocery segment as you know has always been a very competitive segment, and in fact over the last several years, in addition to being very competitive, it has been struggling with food price deflation, and we'll see where commodity prices go going forward. I think, for us as a landlord, we're very fortunate to have great partnerships with very strong survivors such as Kroger, and Publix, and others. And we look at the landscape of new competitive entrants. You mentioned two, Lidl, and certainly Amazon and Whole Foods, we would expect would grow that platform and don't forget ALDI. I think, we've seen some statistics which would suggest that these new entrants into the space represent over 25 million square feet of net new demand. And as you would expect we have discussions ongoing with all of them as it relates to what their expansion plans are. That can ultimately have a deflationary impact certainly on some of the existing competitors, but again, I think, we're really well-positioned given our low occupancy cost with our grocers. If you look across our portfolio, we're well below 2% in terms of average occupancy cost with average sales well above $550 a foot. So, we watch it very closely, but we're actually encouraged by what we see as a lot of capital being invested in a physical store, right. And I think folks are realizing the importance of that to serve their customer.

Mark Horgan

We continue to see very deep interest in open-air assets with grocery. So we're seeing across many markets, both primary and secondary, deep bidding pools and strong value for these grocery-anchored assets. We haven't really seen any impact from some of the transactions that you mentioned. And so from our perspective seeing this great pricing on grocery-anchored assets is a nice validation of the assets, but certainly can make it harder to buy as we remain disciplined with our shareholders' capital. As we see this liquidity, we're going to continue to try to take advantage of it like we have with sale of Frankfurt and Eustis where I think we've generated some interesting proceeds from those asset sales of grocery-anchored assets.

Nick Yulico- UBS

So, your anchor repositioning and outparcel development yields dropped 100 basis points from the first quarter. How much of this was due to new expectations in leasing versus project mix?

James Taylor

It really was driven by project mix almost entirely, as we expanded the scope of some of the existing projects and then some of the new projects, we added. Again, 9% I think, is a phenomenal yield for what we're doing and where these assets are trading at several hundred basis points below that in terms of a cap rate. But it's really just a mix of transactions that we brought into the pipeline this quarter more than anything else. And expect to see us continue as we're moving projects. And please take note of what we're moving into the shadow pipeline, and then what we've moved from the shadow pipeline into active, and of course what we actually deliver. You'll see that we're establishing a really nice velocity of throughput into that value accretive pipeline.

And the last thing, I'd just say there is a lot of what we're doing, as a few of you have noted in your research, it's smaller, it's more granular, and the importance of that is that we're able to get it executed in a reasonable timeframe at really nice, compelling yields. So it's lower risk, higher yield and what we're not including in those returns is the follow-on benefit that we're seeing from the small shop lease-up when we replaced that anchor. And as we've talked about in the past, we're seeing that consistently better than 800 basis points of improvement when we replaced that anchor.

So we're very excited about the Lucky's Market that we added in Orlando, the redevelopment this quarter, as well as the LA Fitness that we did in Chicago at High Point Centre, which was a center with a lot of vacancy. I have to give Vince and the team in Chicago some props for spotting that opportunity and getting right on it and certainly appreciate the partnership we have with LA Fitness. So expect us to continue to find opportunities to add value. And as I've said when I joined the Company, the scope of opportunity across our portfolio of over 500 assets is truly remarkable.

Nick Yulico- UBS

And then just one other question on the overall leasing environment. One of the, I think, concerns out there is that when you hear about the retailers looking to go into open-air shopping centers, it's – we know about the T.J. Maxx, Ross, pick your pet concept and pick a fitness concept, and it's not clear what is the extra level of demand besides those types of tenants, so maybe if you could just talk a little bit more about what that pipeline looks like for demand?

James Taylor

I hit it a little bit, and I appreciate the question and the intro, where I talked about every quarter our National Accounts Team, Nick, does a survey of all the national tenants that they cover, which includes tenants across all the categories I mentioned from restaurant through fitness, to service to health and beauty, to grocery to value, to off-price, et cetera. And what we're seeing there is a robust pipeline of store openings, over 12,500 stores. And given the nature of our assets, what that actually doesn't include are the local and regional tenants that are such a core part of our small shop tenancy.

As I take a step back and think about all these headlines, I think they're missing the point that within the open-air segment, there is a lot of good, strong, robust demand in addition to innovation that's occurring in many of those categories of tenants, particularly in health and wellness, fitness, restaurants, as well as you're seeing some of the value segments, and we just talked about grocery.

So we like what we see as where this creative disruption is going. We think the way of innovation, if you will, is actually favoring the open-air segment, because it's lower cost, it's more proximate to where the consumer is, and more convenient. So we're actually feeling pretty good about where things stand. Now there are always categories that are kind of out of cycle, and certainly we're doing our best to manage that, but Brian?

Brian Finnegan

And look, you mentioned innovation, Jim. I would just point to again TJX with two new concepts like Sierra Trading Post and HomeSense. We look at other home retailers that are expanding. In the grocery front, you're seeing more online pick-up and more specialty concepts that are entering new markets. We continue to see restaurant innovation really across the country. And look, as Jim mentioned, I think as retailers are becoming more prudent with their real estate decisions, it's important for us not only to have good real estate, but a good basis, the redevelopment expertise, and the remerchandising expertise, and then, finally, just the relationships that our guys have, both at the corporate and the regional level to continue to drive these results. So, we feel pretty good about where things are and continue to look to reinvestment and re-merchandise to these uses in our centers.

James Taylor

And Nick, we wouldn't be delivering the results that we're delivering were it not for that demand.

Jeff Donnelly- Wells Fargo

Jim, can you talk about the percentage of your tenants that are occupied, but not paying rent compared to the longer-term trends? I'm just curious if that's been changing. And does that touch some anchor tenants or is that really more of an in-line tenant issue?

James Taylor

I don't think there's really any shift in change. I think what you're referring to is dark, but rent-paying tenants. And we know that's held relatively stable, and certainly we have a few Kmart boxes that fit into that category that are teeing up some of the redevelopments that we have done in Naples and over in Miami Gardens, but no, we haven't seen any real change in that. And actually have been aggressively getting after some of those earlier, and you see some of that coming through our early stage recapture and some of that following through in terms of our lease term fees. But no real change. I think our difference today is that we're getting after some of that stuff earlier and more aggressively to setup redevelopment.

Jeff Donnelly- Wells Fargo

I can follow-up with you on some of that offline, but maybe as a follow-up for Brian, it's often said that one should never let a good crisis go to waste. I'm curious, are you finding retailers trying to take advantage of this environment and maybe lobbying in more, I guess I'll say, inter-lease term inquiries about rent relief or other sorts of concessions, regardless of whether or not they need it, they're just effectively trying to capitalize on the situation?

Brian Finnegan

Look, I think the retailers are always going to use the headlines and they're certainly doing that now for better terms and deals, but generally, we continue to be able to drive rents. We continue to be able to get flexibility elsewhere in our shopping centers for both uses and for our ability to redevelop, and those who we are actually expanding and doing business with, feel pretty good about their bricks-and-mortar expansion plan. So yes, we're certainly hearing some things, but net-net, I think we're doing fine.

James Taylor

But Jeff, it's also opened up an opportunity for us in certain markets, where we've got the great national relationship. We've got great rent basis and those tenants are seeking more reasonable occupancy cost levels. So for example, in Mobile, Alabama, we're able to do that. In other markets, we're able to actually capitalize on our great national relationships on our low-rent basis to add value to our centers.

Alexander Goldfarb- Sandler O'Neill

Just two questions, Jim. First one is, I don't think that you talked about Ascena, maybe you did, but can you just give us your thoughts on what you expect for store closings, bankruptcies for the back half of the year? And then also just in terms of your tenant conversations, what your expectations are for after the holiday season from another round of bankruptcy, store closings, et cetera?

Brian Finnegan

Alex, hey, this is Brian. First on Ascena, look they've been a great partner of ours for a long time and we're certainly in discussions with them on really all the locations across our portfolio. And I think each individual location is different. There are certain circumstances for every space that we have. I would say that we feel pretty good about the demand in that size range for the spaces that we do get back from the likes of Ascena. And just this quarter, we backfilled the Ascena space in Springfield, Illinois with Comcast Xfinity with a 35% increase. So those conversations are ongoing and we feel pretty good about our ability to manage through that.

James Taylor

And then looking into next year, we've got obviously our watch list and focused on a few tenants, but I wouldn't say there's been any substantial changes to where that list has been in the past. And we're constantly monitoring that tenant health to get in front of it. Alex, in fact, we wouldn't have had the results we had this year if we weren't getting in front of it, right. And if we weren't anticipating things like Sports Authority and Payless, et cetera, we wouldn't be minimizing that transitory impact.

Alex Goldfarb- Sandler O'Neill

Okay. So your expectation is next year should be pretty stable to this year, or you think its better?

James Taylor

I think there's probably going to be some continued disruption, no doubt. Obviously I'm not going to comment on any particular tenant, but none of them would be surprises let's just say that.

Alex Goldfarb- Sandler O'Neill

Okay. And then just second question: on the dispositions, have you noticed any change in lender appetite? As you guys are marketing centers, are you hearing anything from perspective buyers as far as whether its community banks or other lenders of those centers dialing back their underwriting of those? Or there's been no change on the lenders for the centers that you're selling?

James Taylor

For the centers that we're transacting on, we really haven't seen that much change. And where we really benefit is that the centers that we're selling are relatively small deal sizes. So they have deep interest from all community banks. We certainly transact on larger deal sizes, and haven't really had much pushback there either, but we're continuing to see a financing market. It may take a little bit longer, but the financing liquidity is still there.

Vincent Chao- Deutsche Bank

Just wanted to go back to the bankruptcy comments for 2017, the 60 basis point hit. I think last quarter you talked about if everything closed, it was like a 125 basis point hit, so I guess at this point is the visibility on that 60 basis points pretty clear or there are still some unknowns out there where closures can be little bit higher. And also, does that 60 basis points contemplate any additional bankruptcies in the back half?

James Taylor

It does not contemplate any additional bankruptcies and we did have a bankruptcy after the last quarter with Ultra Foods, which is small grocer in the Midwest. But the other side of that is the big variables are, we now know basically, what stores are going to be closed, right. And then, we've been generating a lot of re-leasing on that activity as we attempt to resolve those locations that have closed. So 60 basis points is about where we expect the overall impact for the year to be. Again re-leasing can help us close that gap further, but that's about where we expect it to be.

Vincent Chao- Deutsche Bank

And then just along those lines, in terms of the same-store NOI guidance 2% to 3%; if you're sort of at or below the 2% range in the third quarter, depending on exactly what you assume, it does seem like there's a fairly wide range implied for the fourth quarter. And I'm just curious, is it realistic to think that the high-end or the low-end are really going to be hit here? The low-end seems to imply no acceleration and then the high-end something pretty gaudy?

James Taylor

Well, it is a big range still through the year, but take a step back and think about all the moving pieces that we have, which include the 2016 and 2017 bankruptcies and includes a tremendous amount of leasing activity. And where we end up in that range is going to be influenced by the timing of rent commencements, which Vince can move a month or so and that has a significant impact, as well as on the other side of that, I alluded to it in my remarks, but I appreciate the question. We continue to recapture space early to set up anchor repositionings or redevelopments, and that, of course will have a near-term impact on us. So we've kept the range wide and it reflects the fact that we do have a lot of moving pieces, but also importantly, that we do have a lot of leases signed that are getting going to be giving us tailwind into the fourth quarter and into next year. Recognize that we have $33 million of ABR that's signed, but not yet rent commenced, and expect us to continue to add to that tailwind if you will as we go into the fourth quarter and into next year.

Karin Ford- MUFG

Staying on same-store NOI growth theme, do you think there's a new normal for same-store NOI growth in your portfolio given the changing environment, as well as the changes in escalators that you highlighted?

James Taylor

You know when we joined and as we've executed upon this new plan, we expect that long-term sustainable same store growth rate to be in that mid-to-high 2% range. I think that we're doing a great job of biasing us towards a higher end of that range. And certainly, as I look at the rollover growth that's implied and our anchors that are expiring over the next four years at $8.25, and where we're signing the leases, I think we have a lot of long-term visibility on that mark-to-market if you will in those assets. And then again, we are doing all that we can to take that embedded growth which is our cheapest form of growth, that embedded rent growth in those leases. And as we're signing these leases, we're not just emphasizing rollover growth. We are in fact driving better embedded growth. I'm real pleased with the over-2% embedded rent growth average we had on 94% of the leases that we signed this quarter. And that's really a result of focus and, as Brian alluded to, making sure that we're driving competition for the space. And again, we continue to see that. So, I think that, we stand in good shape to hit our long-term targets for several years to come.

Karin Ford- MUFG

My second question is on dispositions. I appreciate the disclosure of what you have under contract. Can you just talk about how big the disposition pool could grow to, how much you're marketing today? And since you can prepay the remaining term loan balance at any time, what factors are determining the size of your disposition pool?

James Taylor

Well, thank you for the question. I'm not going to provide specific disposition guidance; we haven't done it. I'm not going to do it. The reason I'm not is, I want to always maintain maximum flexibility there to make sure that we're doing our job as it relates to maximizing the value of what it is we're selling.

The second point I'd make here is our assets tend to be smaller in size, but it takes every bit as long to sell a $20 million asset as it does a $100 million asset, if you're really truly focused on maximizing value. And so expect this pace that you're seeing increasing, and what we have under contract to be more characteristic in the quarters for the balance of the year. But, beyond that I really don't want to get too specific. We are using the proceeds of these dispositions to deleverage; as you see we did this quarter, we reduced our leverage by $100 million. And expect us to continue to do that on a net basis.

On the other side of the capital recycling equation, in terms of acquisitions, we are saying no to a lot of things. The pricing still is pretty aggressive, in fact we had a center sell down the street from our Miami Gardens Center at a sub-5% cap rate.

So, again we think on balance at least what we see in the market right now, better for us to be net sellers, but as a long-term investor we will of course capitalize where we see acquisitions like we did in Ann Arbor earlier in the year at appropriate IRRs.

Floris van Dijkum- Boenning & Scattergood

Quick question for you guys on, encouraging on the small shop occupancy increase: what are your targets? You run 85% now right; where do you think that's going to stabilize once you guys are done with your redevelopments?

James Taylor

I think we've got several hundred basis points of room to grow there. And, as I've alluded to in the past, it's really through anchor repositionings where we see 800 basis points of improvement– and redevelopments, it's through capital recycling as we exit single asset markets. It's such a local business, Floris, that those assets drag our portfolio average by a few hundred basis points in a single asset market. And then lastly it is focus, and Brian and Mike and team are doing a great job of not just improving the occupancy, but I think it's reflected in our bad debt numbers, improving the quality of tenants that we're bringing into our centers. So, we'll hold on to a space, not put in a tenant that we don't believe in their long-term viability. So, again I'm not going to give you a specific number, but we think it's several hundred basis points higher than where it is today, and we expect to get there, not in a matter of a couple of quarters, but over a couple of years.

Floris van Dijkum- Boenning & Scattergood

I guess one other question. And I appreciate that you don't want to give specific guidance on disposition, but as you look at your debt-to-EBITDA, do you target that? And so can you maybe give a little bit maybe color around your leverage targets, and is that part of what's driving the dispositions or is it purely a cost of capital calculation in your view?

James Taylor

Well, that's more primarily a cost of capital and capital allocation decision at the moment. As I've said before, our portfolio has a lot of embedded EBITDA growth, and we're demonstrating that in what we have, and we are on a very good glide path to take that, which sits at 6.9x today, down to 6.0x in the next year or two.

What I think is also important to recognize, as we alluded to in the comments is that Stacy and Angela have done a tremendous job of extending out our debt and putting ourselves in a position where we don't have to access the debt markets through 2019. Which is particularly important given there inevitably will be a lot of volatility, and so that capital flexibility is of utmost importance to us. And I think the team has done a tremendous job there; just lay over what our maturity table was when we started versus where it is today. And I think we've done an outstanding job, and I think it's being recognized by the fixed income community for managing our balance sheet appropriately.

Wes Golladay- RBC

Can you give us some updates on how the shop tenant is doing for the local shop tenants? We always see in the news that the some of the brands, the big chain concepts are not doing well. Just kind of curious how the local tenant is doing?

Brian Finnegan

If you look at our ratio in terms of small shop deals, we were typically in the past around 60%-40% between national and franchise versus local operators, that's been more 50%-50%. And the quality of the local operators we're seeing are existing businesses, somebody that has a restaurant or two restaurants in a market that wants to expand. We're seeing a number of maybe like local pet stores as well, but the team in the field has done a great job really across the board, looking at strong local concepts.

And as we continue to invest in our centers to Jim's point, when we're doing these anchor repositionings, when we're doing redevelopment, we don't just want to fill the centers with brands. While we do have a lot of relationships with national concepts across the country, we want strong local operators in our centers, and we feel pretty encouraged about the health of them.

James Taylor

And the two things we look at are obviously the AR aging, and the pace of at which the rent is being paid. And that both those indicators remained very strong through the year, as well as, and we do this as part of our budgeting process, we're looking at any amounts in dispute, which is another sort of indicator of tenant health, and those are at also record low levels, where there is a CAM dispute or something like that, so it's something we watch really carefully and we continue to be very pleasantly surprised about what we're seeing in that local and regional tenancy.

Wes Golladay- RBC

And then looking at that 12,500 store openings that you alluded to; how long have we been tracking that number and what's the overall trend in that data?

James Taylor

We've been tracking it since the second quarter I joined, and one of the things that we're holding the National Accounts Team accountable for is market share penetration with those tenants. And I'd say that it's held pretty steady. We've actually seen growth, particularly with the addition of Tonya Creekmore and the restaurant and outparcel team. That's something I'm really proud of what Tonya and Eve have done.

I think we had done maybe one or two outparcel deals in the 18 months prior to our joining. We brought that team onboard last September, and, as I alluded to in my remarks, we have over 40 deals at lease execution or being negotiated with $5 million of rent there, so that activity sort of expands our reach in terms of tenant coverage and I think that's been a lot of the net adds on us.

Brian Finnegan

Yeah and, I would just add as Jim mentioned it earlier in his opening, that number of store openings does not include local tenants, so that's just national operators with announced store opening plans. So we actually feel pretty good about the local aspect of that as well.

Haendel St. Juste- Mizuho

At a high level, I was thinking about the grocery-anchored portion of your portfolio. You guys are 70%, I think, grocery-anchored, 18% of your ABR. I was just wondering in light of Amazon, Whole Foods how you're thinking about those levels going forward. Are you still comfortable with that, should we see that remain relatively same, net reduced as you've been selling some assets, just curious on how you're thinking about that?

James Taylor

I'm very comfortable with that exposure. And look, I think it's an industry that will continue to evolve and change, but it's one that will survive. I think that impacts and there will be changes, will be in things like store formats, the sizes of certain stores. I think you will see some operators invest more in terms of the offerings around the perimeter of the store versus what they have in the middle of the store. But I think the Amazon transaction if anything, in my mind, which I don't think was really covered a lot, it highlighted the importance of a physical platform in that business, not just the bricks and mortar, but the business of delivering that assortment of goods, and prepared foods, and everything to the customer at a reasonable price.

And remember, it's a very, very low margin, and it's always been that way. It's always been very competitive. And I think not just what Amazon's announced with Whole Foods, but also Lidl and ALDI, Kroger, and Publix, and Sprouts, and Lucky's. We're seeing a lot of a lot of strong competition in that field, which on balance I think benefits us. I don't think we need any more grocery stores in this country, but I do think we need better grocers. And I think that's what you're seeing a lot of these operators doing to stay competitive and healthy.

Haendel St. Juste- Mizuho

Have you seen any change in grocer cap rates here over the past couple of months? And then any change in demand for planned grocer openings in your redevelopment pipeline?

James Taylor

Let me hit the second part of that first. We continue to see good grocer demand, in fact, this quarter we added the Lucky's Specialty Grocer in Orlando, which actually replaced an LA Fitness. Cap rates are still pretty racey, Mark?

Mark Horgan

For the grocer assets that we've been selling, we continue to see strong demand. We see cap rates that frankly continue to be a bit surprising on the ones we would like to buy. So, we haven't seen any real change other than people continue to like well-located real estate.

Samir Khanal- Evercore

I'd like your thoughts around sort of Bed Bath & Beyond, it is a top 10 tenant of most of the shopping center REITs. And I know that they've sort of talked about sort of publicly about looking to possibly rationalize their store bases. They have a sizable sort of number of leases coming due over the next few years. Sort of any color around this would be helpful as you think about sort of growth for the next 12 months to 36 months here?

Brian Finnegan

Another retailer which we have a tremendous relationship with. And we are in discussions with them. We feel pretty good about where our locations fit in our portfolio. They are continuing to open some new stores. I know there were a lot of headlines around the store closures, but they are expanding the World Market business, which includes their new Christmas Tree concept they opened in Kennesaw, Georgia and they're expanding that as well.

And I think to Jim's point earlier, it looks like as retailers potentially look to reassess where they are in a market, we have an opportunity there in certain markets to be able to offer them real estate and pull them over to get maybe one or two concepts into a center. So we're in discussions with them, not just on the existing portfolio, but where they're looking to potentially reposition as well. So net – we feel pretty good where we're at with them and continue to be in discussions on those locations

James Taylor

And it's an important point embedded in what Brian's talking about is they are focused on occupancy costs, and as our tenants, and where we have a great national relationship with them, and it allows us in certain markets to capitalize on the location that we have and importantly the rent basis to relocate some of their stores. And we're seeing ourselves as the net beneficiary of that.

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