

4Q 2022 EARNINGS CALL - FINAL TRANSCRIPT**FEBRUARY 2023****CORPORATE PARTICIPANTS***James Taylor, Chief Executive Officer and President**Mark Horgan, EVP, Chief Investment Officer**Angela Aman, EVP, Chief Financial Officer**Stacy Slater, SVP, Investor Relations**Brian Finnegan, EVP, Chief Revenue Officer***PRESENTATION****Stacy Slater**

Thank you Operator. And thank you all for joining Brixmor's fourth quarter conference call. 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, Chief Revenue Officer, 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

Thanks Stacy and good morning everyone. Our results this quarter once again demonstrate the strength of our value-add plan, the quality of our team and portfolio, and the transformative impacts our execution continues to deliver. Consider, for example, that during the quarter:

- We signed another 945,000 square feet of new leases at an average cash spread of 44%, bringing our total new ABR signed for the year to a record \$62 million at an average spread of 37% and a record new lease average rent per square foot of \$19.08.
- We achieved a record total leased occupancy of 93.8% for the portfolio, which reflects a 360 basis point spread to billed occupancy, and which also reflects a drag of 130 basis points associated with our reinvestment activity. Both of these reflect powerful tailwinds as we commence billing those leases and deliver those reinvestment projects.
- We also achieved record small shop leased occupancy for the portfolio of 89.2%, which has more room to run as we execute our value-add strategy.
- We drove our overall average ABR per square foot to a portfolio record of \$16.19, demonstrating our continued progress, but also our continued opportunity for growth given our attractive rent basis, and
- We continued to drive leading market share of new store openings throughout 2022 with core tenants like Burlington Stores, HomeGoods, Ulta, Five Below, Fresh Market, Ross, Chipotle, and Starbucks, while also bringing new to the portfolio concepts that drive traffic to our centers like Bark Social, Yardbird, and Free People.

From a revenue perspective, bottom line, our team once again delivered top of the sector same store NOI growth and FFO growth of 7.3% and 6.5%, respectively. Simply a phenomenal job by Brian and the leasing teams capitalizing on the strong tenant demand for our well-located centers. Importantly, we have also leveraged this tenant demand to recapture space from watchlist tenants at accretive returns, where we can capitalize on our low rent basis to bring in better tenants at better rents. This is a critical point. Our low rent basis and the strong demand from thriving retailers to be in our well-located centers positions us to outperform in 2023 and beyond, while also delivering substantial value creation.

For example, we expect eight Bed Bath & Beyond anchor boxes and two Harmon small shop locations to close. We already have control of four of the eight Bed Bath & Beyond anchor boxes and are at lease or LOI on all four with best-in-class specialty grocery, off-price, and home goods retailers, at average spreads of close to 60%. Our remaining Bed Bath & Beyond and Buy Buy Baby anchor boxes have an average in place rent of \$10.35 per square foot, which compares very favorably to the mid-teens rents we expect to achieve as we take control of them.

Looking forward, we have \$54.7 million in signed annual base rent that will commence, as Angela will detail, over the next several quarters and an additional \$34 million of annual base rent in our forward new leasing pipeline. These pipelines provide tremendous visibility on robust revenue growth in 2023 and beyond, even after the assumed bankruptcy impacts embedded in our revenue guidance that Angela will discuss further. Importantly, this top line momentum will allow us to continue to grow NOI and FFO at a strong pace for the sector, even with the headwinds of naturally declining collections of prior period rents, which topped \$23 million in 2022, and more normalized levels of bad debt. Simply put, we are well positioned to continue to be at the top of the sector from an NOI and FFO growth perspective, all while continuing to create long-term value as we recapture space.

From a reinvestment standpoint, Bill, Haig and our redevelopment / construction teams delivered another 12 projects during the quarter, bringing our total stabilizations during the year to \$179 million at an average incremental return of 10%. We are creating tremendous value here with the additional follow-on benefits of higher rates and occupancy as we do follow-on leasing at the centers impacted. Importantly, we have another \$343 million of reinvestment pre-leased and underway at an incremental return of 9%, creating value even in a higher rate environment, and a forward pipeline of over \$1 billion in projects that importantly exist in assets that we own and control today. We are excited that we will be bringing great projects online this year like the Shops at Palm Lakes outside of Miami; Marco Town Center in Naples, Florida; and Vail Ranch Center in Riverside California.



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From a capital recycling standpoint, Mark and team continued to execute well even in a disrupted capital markets environment, closing in 2022 on \$287 million of dispositions at attractive cap rates, which included the highly profitable sale of Campus Village Shoppes in College Park to a student housing developer. We redeployed that capital into \$411 million of acquisitions with upside in our core markets. In addition to upside in rents versus market, these acquisitions also feed our forward reinvestment pipeline, as we execute our value-add strategy and leverage the strength of our platform. Under Angela's leadership, we continue to enjoy maximum flexibility from a balance sheet perspective to continue to fund our growth strategy without reliance on the volatile capital markets, all while benefitting from our earlier decisions to prepay 2022 and 2023 maturities. From an external growth perspective, we do expect to see some attractive acquisition opportunities in our core markets as private owners face debt maturities and re-tenanting requirements. Expect us to remain disciplined, however, as we are able to continue to drive outperformance in growth and value creation for the next several years through opportunities that we own and control today.

With that, I will now turn the call over to Angela for a detailed discussion of our results, our balance sheet and our outlook, Angela?

Angela Aman

Thanks Jim and good morning. I'm pleased to report on a very strong conclusion to 2022, as we continue to deliver on our value-enhancing reinvestment program and set the stage for long-term growth and value creation. NAREIT FFO was \$0.49 per share in the fourth quarter, driven by same property NOI growth of 7.3%. Base rent growth continues to accelerate, contributing 510 basis points to same property NOI growth this quarter. Excluding the impact of lease modifications and rent abatements, base rent growth contributed 490 basis points, representing a 50 basis point acceleration from last quarter, driven by growth in billed occupancy and significant, positive releasing spreads. Ancillary and other income and percentage rents contributed 80 basis points on a combined basis, while net expense reimbursements contributed 240 basis points due to improvements in billed occupancy and the strong recoverability of certain fourth quarter expenses. Revenues deemed uncollectible detracted 100 basis points from same property NOI growth, primarily due to the ongoing moderation of out of period collections of previously reserved amounts.

Our operational metrics continue to reflect the strength of the current leasing environment, despite macro headwinds, and the continuing successful transformation of our portfolio. Billed occupancy was up 60 basis points sequentially to 90.2%, while leased occupancy was up 50 basis points sequentially to 93.8%, a record high for our portfolio. The anchor leased rate was up 50 basis points sequentially to 95.9%, while the small shop leased rate was up 40 basis points sequentially, or 250 basis points year-over-year, to 89.2%, reflecting another new portfolio record.

The spread between leased and billed occupancy ended the period at 360 basis points and the total signed but not yet commenced pool, which includes an additional 70 basis points of GLA related to space that will soon be vacated by existing tenants, totaled \$55 million. The size of the pool is up approximately \$2 million since last quarter, despite the commencement of leases representing approximately \$16 million of annualized base rent this quarter. As we have highlighted in the past, one of the strongest indicators of forward growth is a persistently wide spread between leased and billed occupancy, while both billed and leased occupancy are increasing. In addition, the blended annualized base rent per square foot on the signed but not yet commenced pool remains above \$19, approximately 20% above our portfolio average, reflecting the broad-based impact of our granular reinvestment initiatives.

In terms of our forward outlook, we have introduced guidance for 2023 same property NOI growth at a range of 1.5 to 3.5%, comprised of a 350 to 450 basis point contribution from base rent, offset by a significant deduction from revenues deemed uncollectible. We estimate that the amount of revenues deemed uncollectible recognized during 2023 will total 75 to 110 basis points of total revenues, which is in line with our historical run rate. This assumption reflects the modest amount of out of period collections we expect to realize during the year. The normalization of this line item in 2023 will result in a 200 basis point deduction from same property NOI growth at the low end of the range, or a 150 basis point deduction at the high end of the range, as the income associated with revenues deemed uncollectible in 2022 once again becomes an expense in 2023.

In addition to our assumptions for revenues deemed uncollectible, which primarily address normal course credit issues across the portfolio, the midpoint of our same property guidance range also reflects approximately 150 basis points of drag related to recently announced or anticipated bankruptcy activity, which is reflected in our expectations for base rent and net expense reimbursements. Of this amount, 60 basis points relates to known events, including lease rejections that have occurred to date and the impact of locations that we are proactively recapturing from struggling retailers ahead of a likely filing, while the remaining 90 basis points relates to assumptions about potential future events, providing us with significant capacity to absorb additional tenant disruption within our range. Our ability to deliver a 350 to 450 basis point contribution from base rent growth in a year with over 100 basis points of base rent impact from bankruptcy activity underscores the success of our portfolio transformation and the importance of our signed but not yet commenced pipeline as a source of forward growth and momentum.

We have also introduced guidance for 2023 Nareit FFO at a range of \$1.95 to \$2.03 per diluted share. Our guidance assumes the utilization of our \$200 million delayed draw term loan at the end of April to continue to extend the duration of the balance sheet. In early February, we entered into a forward starting swap related to the delayed draw term loan, which fixes SOFR at a rate of 3.59% from May 1, 2023 through July 26, 2027, the maturity of the term loan, resulting in a fixed rate for this loan of 4.88%. As of December 31st, we had total liquidity of \$1.3 billion, a weighted average maturity of 4.9 years, and no debt maturities until June 2024.

QUESTION AND ANSWER

Craig Schmidt – BofA

What are your expectations for transactions in 2023? I know you didn't acquire anything in the fourth quarter. And how long do you think it's going to take before you find where the new normal cap rates are for open-air centers?

James Taylor

I think it's going to take a while and I think what's going to increase transactional activity, as I mentioned in my remarks, are really two things. One is the disruption and re-tenanting capital that will be an opportunity for platforms like ours. And then refinancing requirements with higher interest rates. So, I think that that's going to raise the level of overall transactional activity, certainly above what we saw at the end of 2022. And we're going to be opportunistic. As I highlighted in my remarks, the great thing about our business plan is it doesn't require external growth to drive outperformance and that allows us to remain very disciplined. We certainly have the flexibility and the capital capacity to be acquisitive, but we're going to pick our spots. And I am hopeful that as we move into this part of the cycle, there will be attractive value-add opportunities for us.

Craig Schmidt – BofA

Your leasing activity actually picked up in the fourth quarter. How do you feel about that leasing activity as you head into 2023 relative to 2022?

James Taylor

You know, any quarter can fluctuate a little bit, but I think we're continuing to see great strength in demand, and Brian and team capitalized on it.

Brian Finnegan

We're really encouraged by what we saw in the fourth quarter. It was actually our most productive quarter of the year from a GLA perspective. We had a nice uptick in anchor activity, but also continued to see small shops come through. And Jim highlighted a number of retailers that we signed leases with during the quarter, which was pretty exciting. What's more encouraging is if you look at that pipeline at the end of the year, from a legal perspective, leases that are out – it's actually up from where it was a year ago at the end of 2021. It gives us good visibility in terms of demand for this year, demand that we are seeing for some of that troubled tenant space from core tenants and a lot of new ones that we've been able to attract to the portfolio because of all the work the team has done. We're really encouraged by what we saw in the fourth quarter and what we continue to see at the start of the year.

Todd Thomas - KeyBanc

First, I just wanted to clarify, with regard to the guidance, the 350 to 450 basis points of base rent growth, that includes a 150 basis point drag that takes into account, I think you said, 60 basis points from known events – so move-outs, lease rejections – and an additional budgeting of 90 basis points, plus a normalized level of uncollectible revenue. That's the 75 to 110 basis points on top of that? Is that right or am I double counting with the 75 to 110 basis points on top of the comment you made around the 150 basis points of drag?

Angela Aman

No, you're right that the 75 to 110 basis points is separate and apart from the 150 basis points of bankruptcy impact I referenced in my prepared remarks. The only clarification I would make is that the 150 basis points is on NOI. So, while the vast majority of that is in base rent, there is a small piece, probably about 35 basis points of it, which is embedded in our expectations for net expense reimbursement.

Todd Thomas - KeyBanc

Got it, that's helpful. And then in terms of the minimum rent growth that you're forecasting, again the 350 to 450 basis points. I guess two things. Obviously, it was elevated in the quarter at 4.9%. Is this quarter sort of the peak or do you see that maybe continuing to improve a little bit in the near-term? And then can you break that out in terms of the contribution or what you're anticipating within that from occupancy, escalators, and lease-rollover throughout the year? Just a little bit more detail there would be helpful.

James Taylor

Let me touch on that generally and I'll let Angela get more specific. But it is not a peak. The momentum in terms of top-line growth continues, and as Angela reflected, that assumption for 2023 is net of space we expect to, and frankly hope to, recapture during the year. So that is coming in the top-line expectation.

Angela Aman

To follow-up on Jim's point, sort of the range for the year, given what a significant amount of impacts we've embedded within that base rent expectation of 350 to 400 basis points from bankruptcy activity, the timing of that bankruptcy activity and exactly kind of how that bankruptcy activity plays out over the course of the year is going to matter a lot from a trajectory perspective. What I would very much emphasize, though, is if you step back and think about the pieces I gave, the guidance, we gave 400 basis points at the midpoint of the range. That number is in line with what we delivered in 2022 with an additional 100 basis points of bankruptcy impact. So I think pulling that out, you can pretty clearly see we would have been sort of 5% or better, pretty much in line with the fourth quarter number you referenced. It is hard to give trajectory on that line item, as we move through the year, but as I think both Jim and Brian have highlighted, we feel really good about the space that we're recapturing and the ability to set 2024 and even 2025 up for even better long-term growth.

Todd Thomas - KeyBanc

What about some of the moving pieces there, in terms of occupancy or tell us where sort of the average escalators are within the portfolio today? Just to help us get a sense for the contributions.

Angela Aman

The escalator pieces is somewhere between 110 and 120 basis points today. The impact from positive releasing spreads is probably in and around 150 basis points, which leaves you with kind of 80 to 180 basis points for occupancy gain and other impacts in the portfolio, offset by that bankruptcy impact. But the two pieces that are easiest to quantify for you today are the contractual bumps and the releasing spreads.

Juan Sanabria – BMO

In terms of the occupancy cadence for the year, should we expect a seasonal decline in the first quarter? If you could just give us a sense of what's assumed in guidance. And I'm not sure if you can hit on the range if expectations for year-end 2023 guidance? But if you can, that would be helpful.

Angela Aman

Again, it's really tough. I think for us as we move into this year, we feel like we've more than adequately captured the impact of potential bankruptcy activity in the NOI guidance we've given, and importantly, in that base rent guidance we've given. Exactly how that plays out from a trajectory standpoint in terms of space recapture or other impacts, the bankruptcy is a little bit harder to say, but I do think it's fair to expect that there's some seasonal decline as we move into the first quarter. From some of the announced bankruptcy activity we've already had, there's likely a few spaces that we're recapturing as well as the four Bed Bath & Beyond spaces that Jim mentioned in his remarks. And I'll let Brian sort of touch on our enthusiasm about those recaptures.

Brian Finnegan

As Jim mentioned in his opening remarks, we've been really encouraged by what we've seen so far just from the anchor demand in general, but particularly for these spaces. I mean to have four of these effectively spoken for out of the gate at rent spreads close to 60%. You're seeing in that size range just a significant amount of demand. And if you think about just the store opening plans for tenants in that size range, you look at Burlington Stores, Ross, TJX, all with over 100 store openings, and Aldi, Sprouts also with significant open to buys. And then even if you split some of that space up for tenants like Five Below, Pop-Shelf, Skechers, there's just a significant amount of demand for that space. To Angela's point, we may see some occupancy headwinds in the start of the year but based off of what is already in the pipeline, plus the demand that we have for this space, we feel good about the long-term trajectory.

Juan Sanabria – BMO

And then just a more macro question. I mean, there's questions as to where the macro direction is headed and the strength of the consumer or not. But just curious if you've seen any diminution in any demand from any pockets of retailers. I'm not sure if it's more services or goods oriented or by geography to point to at all or if everything is just about humming along and then really nothing to report in terms of a potential slowdown looming at this point in time?

James Taylor

We continue to be impressed by the strength and resilience of the open-air format. We continue to see growth in average weekly traffic levels both over the prior year and, importantly, over the pre-pandemic levels. From a tenant demand perspective, the breadth of demand continues to grow so much so that we actually have tenants anticipating space recapture from weaker tenants and willing to spec the time and the dollars to enter into LOIs and leases should we be able to recapture the spaces. It remains a pretty healthy environment for us from a demand perspective. And real time, we continue to see good traffic and as I mentioned, a growing breadth of demand from categories of retailers.

Ki Bin Kim – Truist

Going to your guidance, are you able to provide interest expense guidance and G&A guidance?

Angela Aman

On the interest expense, I mentioned in my prepared remarks the utilization of the delayed draw term loan and with that we believe that we're going to probably be, from an interest expense perspective, somewhere between \$199 million and call it \$201 million for the full year, based on sort of where the curves sit today and our expectation for revolver utilization during the year. And in terms of G&A, we're being very disciplined about G&A spend across the platform and continuing to look for additional opportunities for efficiencies and believe that we'll be able to end 2023 with G&A relatively in line to where we were in 2022, plus or minus.

Ki Bin Kim – Truist

Your redevelopment pipeline, as you've completed some projects, has come down a little. Can you just talk about the prospects for the next round and how are you thinking about the yield or upside characteristics as it compares to the existing redevelopment portfolio?

James Taylor

It continues to be very robust and a good mix of projects. With the smaller anchor repositionings, frankly, you should expect to see a pickup in as we recapture additional watchlist tenant exposure, and as well larger projects. I'm fairly confident that we're going to remain in that \$150 million to \$200

million of annual deliveries and annual project starts that we see, importantly, for the next several years. In fact, as I mentioned in my remarks, our shadow pipeline continues to grow. It sits at over \$1 billion today and the yields, are frankly, still very attractive because of where our rent basis is. So expect us to continue to deliver those projects in the high single-digit, low double digit area.

Greg McGinniss – Scotiabank

Just curious which watchlist tenants maybe we should be paying attention to in order to understand whether you'll be utilizing that potential 90 basis points of additional tenant disruption cushion?

Angela Aman

I'm hesitant to obviously call any tenants out specifically. I would say that this morning's announcement of bankruptcy by Tuesday Morning is a good example of how the environment continues to evolve. That 60 basis points of known events, just to be very clear about it, relates to the bankruptcies that have already occurred and rejections that have taken place that would include Regal and just a couple of rejections we had out of Party City. Anything additional in terms of impact from those tenants that have already filed would be in the 90 basis points, in addition to our expectations for Tuesday Morning, which filed this morning, and all of our expectations around some tenants that have been widely reported to be considering a filing, such as Bed Bath & Beyond.

Greg McGinniss – Scotiabank

So the 90 basis points seems to be names we've read about before. So nothing from like smaller tenant expectations from maybe a more difficult economic environment because of some closures on that side of things?

Angela Aman

The normal course bad debt expense primarily for small shop tenants is going to be really embedded in that 75 to 110 basis points of revenues deemed uncollectible guidance we gave. The 150 basis point drag associated with anticipated or recently announced bankruptcy activity that's really hitting our base rent guidance and our net expense reimbursement guidance is entirely national tenant related. They're the names I just mentioned that have all been sort of widely in the news, in addition to other impacts we've assumed for situations that may play out over the course of the year that I just wouldn't call out on today's call and that will continue to evolve as we move through the year. But, for the most part, it's names that we've all been talking about and we've assumed a wide range of potential impact as we move through the year. I just really underscore what I said in my prepared remarks, which is that I think we've got significant capacity embedded within the range to absorb a wide range of tenant disruption in our current guidance.

Anthony Powell – Barclays

A question on dispositions. You did about \$200 million last year. What's your idea for further pruning the portfolio? And if you don't acquire assets, what are the best uses of those proceeds?

James Taylor

The best use of proceeds in this business is reinvesting in well-located centers that have attractive rent basis, which is what drives a good part of our fundamental growth and value creation. We'll continue to find opportunities like that and I'm hopeful that we do find some opportunities from an external growth or acquisition standpoint that present the same reinvestment growth and value-add. That's really our sweet spot and it's really where we can leverage our national platform vis-à-vis private owners who typically don't have the visibility on tenant demand or the access to liquidity that we have in our core markets. So, we'll see how that plays out. Expect us to be balanced. And by that, I mean expect that the rate of disposition activity will roughly follow what we see from an external growth standpoint. The timing may be some more front-end loaded, some more back-end loaded. We'll see. But I'm very optimistic about seeing some acquisition opportunities that help us continue to leverage our platform. But importantly, we don't have to and that's a point I keep hammering. Which is we have tremendous growth embedded in what we own and control today, which is a good position to be in, and allows us to be disciplined as we continue to deliver growth at the top of the sector.

Anthony Powell – Barclays

And then the lease spreads have been very strong. Have you had any pushback from tenants as you discuss with them lease terms, really spreads, escalators? Just how are tenants reacting to these conversations?

James Taylor

Well that's the beauty of low rent basis. And believe me, the tenants aren't going to want to pay any more rent than they have to for a space. They're also much more sophisticated in recent years about what types of sales that they can model in a space, and we work with them very closely.

Brian Finnegan

And it speaks to both the transformation of the portfolio, as well as the leasing environment, which is incredibly supply restricted. And with all the work the team has done in this portfolio, you're seeing that come through in stronger rents, you're seeing it come through in the highest retention rate that we've had in the last 5.5 years. Particularly as you look at those renewal spreads last year, we are really encouraged by spreads that are close to 11%, which is up 480 basis points over it was a year ago. From a new lease perspective, we are seeing a significant amount of competition for space, which is driving rate higher. So, it's really a combination of a strong leasing environment, but also the work that the team has done to put the portfolio in a position to really drive rate with great tenants across the country.

James Taylor

I appreciate the focus on those spreads. I don't think we get enough credit for them particularly when you view them in the context of the sector overall, several hundred basis points of outperformance, quarter in and quarter out, which just simply underscores the strength of the plan and the strength of the assets, and how great a job Brian and team are doing capitalizing on tenant demand.

Craig Mailman - Citi

Not to dwell on Bed Bath in particular, but kind of curious on a couple of things here. Number one, you gave the 60% mark-to-market on the four. Could you give what you think the broader mark-to-market is on your total exposure? And then I know there's some discussion out there, whether they even file or what type of filing it is. Assuming maybe a restructuring or non-bankruptcy filing, as you guys comb through your exposure to them, what percentage do you think is potentially at risk for them to give back versus, kind of, strong sales, good locations that you would consider them to keep?

James Taylor

Well, let me just make this point, if I may. We want every box back we can get. We've got tremendous demand for these spaces, which have an average rent basis of \$10.35. Now we've embedded within guidance what we expect with some cushion in terms of timing. But I think the most important point is that when you look at our Bed Bath exposure in its entirety, it represents a significant opportunity for us to drive real value, real growth and real value. And so when you think about that \$10.35 of basis, we're signing replacement tenants in the mid-teens. So consistent with what we've already announced on the existing boxes, but importantly spreads that allow us to actually create value as we bring in better tenants into our centers. And then we get the follow-on benefit from there of additional small shop leasing and increase in rate. In terms of the timing of when we recapture the space, I think Angela and team have done an excellent job of going through and handicapping that and making sure we have cushion in our growth numbers to handle a wide array of potential outcomes. But let's not lose sight of the more important point, which is, it's going to create an opportunity for us that could drive real time value, by the way, and still deliver growth in 2023, right, which is something that can't be said by many in this sector. So that is just one example. There are other tenants where we hope to get the space back and I can assure you, we're leasing ahead and by that I mean, we're driving activity ahead of recapturing this space.

Craig Mailman - Citi

As we think about the SNO pipeline, it continues to kind of increase here, while from a timing perspective, taking back these boxes, obviously, creates some disruption. I mean, that SNO pipeline could continue to grow as a percent of ABR, which kind of sets you up for 2024 and beyond. Did you think there's like a new normalized growth rate for the portfolio as you can kind of pull forward?

James Taylor

I think you're spot-on and hats off to the leasing and national accounts team for continuing to grow that pipeline and address early recaptures. But I think you're kind of seeing hints of it in our top-line numbers, right - that 4%, which reflects a meaningful drag from anticipated space recaptured during the year. But you saw it in the fourth quarter, and as we talked a little bit about, you see it in our numbers and expectations for 2023. And you make a really good point, which is that SNO actually impacts us even more accretively in 2024, right, as we get the benefit of a full-year of those deliveries. So we're excited about how we're positioned.

Craig Mailman - Citi

And just one more quick one on the shop. You know you guys are at kind of record leased occupancy there. Given what's in the pipeline that you guys are seeing, net of maybe some of the cushion from potential bad debt that you're kind of baking in, what's the maybe year-end target on that small shop? And from a dollar perspective, I know those are more impactful. So how should we think about the longer term run rate of that portfolio versus maybe some of the near-term impact of bad debt?

James Taylor

We have more than a couple hundred basis points of room to run. We've got drag in our reinvestment pipeline. We currently sit at 89.2%. Over time, you can see that number grow into the low 90s. And you make the right point, Angela will hit on in terms of what the impact is, but that's part of the follow-on benefit of our reinvestment. And as we deliver those new anchors, we get better rate and better occupancy in the small shops of the centers impacted. The reason I'm making that point is that we're not managing to an occupancy level. We're managing to drive fundamental growth and ROI. Small shop growth is a great lever for us to pull as the anchors and broader reinvestments are delivered. And you're right, there is a leverage impact on that number.

Angela Aman

When you look sort of where we've been signing new small shop leases over the trailing 12 months, it's over \$25 per square foot. That's over 50% above our portfolio average. So, every 100 basis point gain in small shop occupancy translates into something a little over 150 basis points of same property NOI contribution.

Haendel St. Juste - Mizuho

Maybe some follow-up comments on the transaction market. Obviously, things are still pretty frozen out there. Retail volumes were down, I think, 50% in fourth quarter, pretty wide bid-ask spread. So, maybe can you talk about the cap rate for the type of assets that you'd like to own, what you're seeing out there? And then given your cost of capital, what kind of mid-hurdle rate would need to be or basically where assets would need to be priced for you to get more interested or more active here?

James Taylor

Our hurdle rate has absolutely gone up with the increase in the cost of capital. To the latter part of your question, we're remaining disciplined. Where we expect to find opportunities is where there has been disruption and where we have the opportunity not only to get in at a good initial yield, but where we have great visibility on our ability to grow that so that we can get to unlevered IRRs in the high-single, low-double-digit area. Mark can comment a little bit on what we're seeing real time in the transaction market from a volume and pricing standpoint.

Mark Horgan

In terms of the current market, it has definitely started to slow as buyers and sellers have continued to adjust to the new rate environment. Trades have been limited again in Q1 but I'd say over the last few weeks, we're starting to see some more assets come to market, both from institutional sellers who may need some liquidity for redemption requests and probably more interesting is seeing some private owners come to market who are struggling with the debt market. We do like to buy from some of those private owners. As Jim mentioned earlier our platform just has more liquidity, there's more access to tenants, and that's where we see our opportunity to drive assets and get those higher unlevered IRRs that we seek.

In terms of pricing, it's hard to exactly pinpoint where things are given the somewhat slower trading environment. We are seeing the biggest price range, is really on those lower cap rate assets where it's clear that that cap rates have moved there from the low point 50 to 75 basis points. So we do think we'll be seeing some better opportunities as the year progresses. I think, as Jim mentioned, I do expect that to be a bit a bit back weighted.

I'd add just on the acquisitions, Jim and Angela mentioned, we focus on value-added deals where we can drive value in cash flow and that's really well suited for this type of environment. And I think you can see that at some of our past acquisitions like Brea, which we bought last year, that we've leased it up to 100% and we've got outparcel developments in progress, or Ravinia where we moved occupancy from the low-80s to the low-90s in our first year of ownership. So we're excited about the opportunities we'll see this year, but I do think it'll be a slow start to the year.

Haendel St. Juste – Mizuho

Thanks. I appreciate that color. And, certainly, the latter half of your response, to address my follow-up question, was going to be on, if your focus is going to include more of these acquisitions with the occupancy upside and more repositioning, if that's kind of more of what you're inclined to do or, perhaps, see a greater opportunity. So, it sounds like that's what you're focused on. But maybe a question on the balance sheet, Angela, like leverage. I understand that there's no near term or very little near term debt maturities, but you're sitting here at mid-6x and, I guess, I'm curious on your thoughts on target leverage in this type of environment. I'm assuming that the plan hasn't changed in terms of deleveraging and as you realize your SNO rents, the leverage should come in. So, help us understand kind of what target leverage, when do you think you'll get there, and maybe some timing for the SNO this year and next year?

Angela Aman

Our expectations in terms of the target leverage haven't changed. We're continuing to work our way to about a 6x debt to EBITDA. A big reason why we feel like that's the right level for this company and in this portfolio is due to the below-market rent basis in the portfolio. On a look-through basis, we're clearly well below 6x once we achieve that level and, actually, a touch below 6x now. And you're right that a continued contribution from the signed but not commenced pipeline and how that comes in over the course of the next year or two is a meaningful contributor to helping us get there, but I would also sort of pull back from that a little bit and just note that we've got \$115 million to \$120 million a year of free cash flow that we're using to invest in the value-enhancing reinvestment program, and funding it with the free cash flow in that way is just fundamentally deleveraging as well. So, it's just the continued execution of the strategy continues to set up the glide path well to meet those targets. And in terms of the signed but not commenced timing, we do provide it in the supplemental on the NER page. You'll see when looking at that that about 76% of that \$55 million comes online by the end of 2023. I would note that the contributions between the first half and second half of the year are roughly ratable as we move through 2023.

Alex Goldfarb – Piper Sandler

To the prior question where you didn't want to talk about specific future tenant issues, I guess let me ask it from this perspective. The future potential tenant issues that you guys are contemplating in that generic bad debt guidance, do those tenants also have similar re-leasing upside that we're seen from Bed Bath and some of the other tenants, that 40-plus percent that we're seeing overall and 60% on Bed Bath? Or does that future potential pool have re-leasing spreads that would be lower than that?

Brian Finnegan

If you think about Tuesday Morning today, which Angela highlighted, you look at what we signed during the quarter, we took a space back in suburban Cincinnati, we doubled the rent. We've been signing leases on that size space in the high teens with the likes of Five Below, Skechers, and Boot Barn. So for those sized spaces certainly, and I'd say across the board, we benefit from a low-rent basis in particular with these tenants. We feel pretty good overall about the upside. Is every space going to be 60%? No, but we do think that these spaces are going to be in line with where we've been driving rents across the portfolio and we've been pretty encouraged by it.

Alex Goldfarb – Piper Sandler

One of the big issues out there just seems to be it's not the demand to backfill, it's actually the time to reopen tenants. I guess, are any tenants willing to take space as is? And if not, are there any ways to sort of accelerate the downtime to minimize that or it is what it is between getting the permits, building out the space, etcetera?

Brian Finnegan

I'm really glad you asked the question because our Operations teams, led by Haig, which Jim mentioned, have done a fantastic job in terms of partnering with the operating teams on the tenant side. I point to an example last year where we opened two Ultas in metro New York and we got those stores open in less than six months. And we have seen tenants take space as is. But, as we've mentioned on prior calls, what has come out of the pandemic as a best practice has been retailers utilization of more existing conditions, right? They're figuring out how to change their prototype so they can keep the bathrooms where they are. They're figuring out how they can utilize the existing HVAC units. And they're doing that because we're radically aligned in terms of getting them opened as quickly as possible. So, we have done some work that has taken some time on the front end from a lease negotiation standpoint, but it has certainly cut down time from a build-out perspective. And the other thing, is a lot of these, particularly on the spaces that we've been in front of, we've had our folks in the space, had tenant representatives in the space to be able to understand the plan so that when we ultimately get those spaces back, we're already ahead of the game. The team has done a fantastic job really across the board in partnering with our tenants. I think some of the things that have come out of the last few years are going to remain going forward in terms of the flexibility of how they were able to utilize these spaces.

Floris Van Dijkum – Compass Point

I just wanted to make sure I understand this correctly. Capital allocation is how management provides value to shareholders. And you've done a very nice job in terms of self-funding your business and generating significant amount of free cash. One of the things that I'm curious to make sure I understand correctly here, the ancillary benefits of this reinvestment in your portfolio is that your small shop occupancy has increased quite sharply, but there appears to be significant more room to go here. Am I correct that every hundred basis points of small shop occupancy is 150 basis points of NOI growth? And does that imply that if you get your small shop occupancy another 300 basis points higher, which I think is where it's trending based on your redevelopments, is that another 600 basis points of upside potential?

Angela Aman

When you just think what a powerful contributor the small shop occupancy pickup is when you're bringing that space online, not at portfolio average of \$16 and not even at sort of where the signed but not commenced overall pool is today at over \$19 per square foot, but at \$25 per square foot, you can really sort of get your arms around how significant the upside and what an important driver that is of growth as we move forward. We still have some remaining upside opportunity in anchor space, we're about 100 basis points below kind of the record anchor occupancy for the portfolio, so there's still additional opportunity there. But most of the growth over time, over the next, call it, three, four, five years on the anchor side is going to be from continuing to roll those rents to market, as we've talked about, primarily through the reinvestment program and a product of recaptured space like we've been talking about today from some of the struggling tenants. So, that's still a contributor to growth. But there's no question that the follow-on benefit and the momentum we're seeing in small shop occupancy and the outsized potential of those rents is going to be a very significant driver of growth over the next several years.

James Taylor

You're hitting on the flywheel effect we've talked about before, which is as we deliver these reinvestments at attractive returns, we're fully anticipating follow-on benefit in rate and in occupancy, particularly in the small shops of the centers impacted. And it's part of why we don't manage the business to a particular occupancy target. We manage the business for growth.

Floris Van Dijkum – Compass Point

I presume your fixed rent bumps in your small shops are higher as well. And they mark to market more often than your anchor rent, so one of the other benefits of getting that occupancy up. Maybe if you can talk a little bit about one of the things that we've been hearing a lot more about in terms of tenant demand is medtail or medical users in portfolios. And I think you mentioned something like that as well. It's hard for us to understand how those tenants think about occupancy costs and their ability to pay rents? Can you guys provide a little bit more color into the demand that you're seeing there and why you feel good about that portion of your portfolio?

James Taylor

But I think as I mentioned many times, we're seeing that funnel of potential users continue to broaden really nicely. And it includes medical users. It includes health and beauty, wellness, and many other categories that are basically realizing that there's a real benefit in having a storefront presence near where the customer lives, one that's convenient, one that gives them good visibility, and frankly, one that allows them to benefit from the other traffic daily needs that that center generates. So we continue to be excited and impressed by the breadth of new users. And it's important to understand that just creates more competition, which allows us to drive more rate.

Brian Finnegan

Jim, you hit on this before. I'd also add this has become a really complementary use in our centers. If you think about the operators in the medtail space that have been really active, they often have very strong credit profiles backed by large insurance companies. We signed two leases this quarter in Southeast Florida backed by UnitedHealthcare. We're seeing really good activity on the dentist front. And then if you think about just the merchandising mix of our centers, chiropractic, massage, acupuncture, that kind of wellness medtail goes very well with fitness users, with apparel operators that are selling fitness-type apparel. So we think it's very complementary. The other thing I would say is we've been freeing a lot of those type of uses up in our centers and our leases going forward. We do have some older leases. And where you see that this has become kind of part of the normal tenant mix is our national tenants where we have older leases, where some of these uses are restricted, have been very accommodating to allowing them in, because it does go with just another traffic driver. And to Jim's point, just the range of uses that are looking for space in the center. So, overall, we've been pleased

with what's happening in that space, and again, it's just creating more competition for that shop space.

Michael Mueller – JPMorgan

I guess people always talk about the calendar shifting and things changing, and I'm just curious with this one that just happened. Are you seeing anything different in terms of the volume of product coming to market? Or on the financing front maybe? The financing availability for smaller owners?

James Taylor

You know, we do expect more product coming, and Mark, kind of, alluded to it, in terms of what we're hearing in the pre-pipelines of many of the brokers and others that represent these private owners. So, we do expect it to be more back-end weighted. It takes a while for these processes to roll through. What we see driving the activity are two things. One, the tenant disruption. Private landlords may not have the capital or the leasing wherewithal to backfill some of these spaces, as well as refinance requirements. These private owners can still get financing, but the interest rate environment is much more difficult, which impacts cash distributions to ownership. So, we do expect those two underlying market forces to drive more product.

Tayo Okusanya – Credit Suisse

Going back to the question around the watch-list tenants and why you're not specifically talking about any names. Could you talk about any particular retail categories where maybe on the margin, you may be expecting a little bit more activity versus last year?

James Taylor

Entertainment certainly. But there's no real surprises. The weaker and struggling retailers are known to all. You can see their issues coming well in advance, part of why Brian and the team are way ahead of that and working with tenants to pre-lease a lot of the space that we expect to get back. But there's no kind of persistent categories. It's really more retailers who've had persistent problems. And the great merchants continue to thrive. And not only are they thriving, but they're putting more and more importance on the central role the store plays in a multi-channel format. So, it's less category driven other than perhaps movie theaters and much more participant driven.

Linda Tsai – Jefferies

What are your views on TI's in 2023 versus 2022?

James Taylor

We're going to stay disciplined. I mean, look at our net effective rents. We're going to use that kind of competition to not only drive rate, but to drive lower TIS. So, you know, that's been our approach. And, you know, we do actually disclose here what the net effective rents have done, which some don't. But I think that that's important. And you can see there'll be a quarter two of movement. Some looks high, some looks low. But, you know, when you look at it over several quarters, you can see that we're holding pretty firm there.

Linda Tsai – Jefferies

And then on groceries, with Amazon closing some Fresh and Go stores, will you see any impact, and then to the extent, Kroger and Albertson's sell 250, 300 stores, what's the read-through for your portfolio?

Brian Finnegan

So just on Amazon. They've been a great partner of ours and we were really excited. In the fourth quarter, we were able to add and announce our Whole Foods in Suburban Philadelphia. We're seeing great leasing traction on the Whole Foods locations that we purchased in Houston, in Chicago last year. They are a great operator. They drive a ton of traffic on the Fresh side. Look, Amazon has publicly announced a pause which we think is prudent for them to get it right. They did open this chain in the middle of the pandemic. But overall, we're really pleased with the partnership that we have with both Amazon and Whole Foods. And then as it relates to Kroger and Albertsons, there's not much new to report. I know there was a media report out there regarding a number of store closures. There was always going to be a certain number of divestitures as part of this. But I would just remind everybody as even Kroger and Albertsons have said this is going to be a long regulatory process. They said in the initial announcement it's going to be early 2024 and we feel good about our fleet of stores no matter what the outcome is. If you look at our Kroger and Albertson's fleets across the portfolio, we've got great locations in places like Atlanta and Denver and Dallas, Southern California, Cincinnati, just a great fleet. And both fleets have been significantly reinvested in over the years. So, we think a merger would be good for both companies. It will allow them to continue to reinvest in those stores. But, again, we feel pretty good about our fleet no matter what the outcome is.

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