# General Growth Properties (GGP) Earnings Report: Q4 2015 Conference Call Transcript

The following General Growth Properties conference call took place on February 2, 2016, 09:00 AM ET. This is a transcript of that earnings call:

**Company Participants**

- Kevin Berry; General Growth Properties Inc. ; VP of IR
- Sandeep Mathrani; General Growth Properties Inc. ; CEO
- Michael Berman; General Growth Properties Inc. ; EVP and CFO

**Other Participants**

- Steve Sakwa; Evercore ISI; Analyst
- Michael Bilerman; Citigroup; Analyst
- Christy McElroy; Citigroup; Analyst
- Caitlin Burrows; Goldman Sachs; Analyst
- Ki Bin Kim; SunTrust Robinson Humphrey; Analyst
- Alex Goldfarb; Sandler O'Neill & Partners; Analyst
- Jeremy Metz; UBS; Analyst
- Vincent Chao; Deutsche Bank; Analyst
- Paul Adoranato; BMO Capital Markets; Analyst
- Craig Schmidt; BofA Merrill Lynch; Analyst
- George Auerbach; Credit Suisse; Analyst
- Mike Mueller; JPMorgan; Analyst
- Floris van Dijkum; Boenning & Scattergood; Analyst
- Rich Moore; RBC Capital Markets; Analyst
- D.J. Busch; Green Street Advisors; Analyst
- Linda Tsai; Barclays Capital; Analyst

MANAGEMENT DISCUSSION SECTION

**Operator**:

Welcome to the General Growth Properties fourth-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Mr. Kevin Berry. Sir, you may begin.

**Kevin Berry** (VP of IR):

Good morning, everyone. Welcome to General Growth Properties' fourth-quarter 2015 earnings call hosted by Sandeep Mathrani, our CEO; and Michael Berman, our CFO.

Certain statements made during this call may be deemed forward-looking statements within the meaning of the Safe Harbor of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially due to a variety of risks, uncertainties and other factors. Please reference our earnings press release and SEC filings for a more detailed discussion.

Statements made during this call may include time-sensitive information accurate only as of today, February 2, 2016. Reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures are included in the earnings release and supplemental filed in the Form 8-K with the SEC and available on our website.

It is my pleasure to now turn the call over to Sandeep.

**Sandeep Mathrani** (CEO):

Thank you, Kevin, and good morning, everyone. Thank you for joining our call. My prepared remarks will cover the following main topics, a recap of our fourth-quarter activities followed by our observations of the retail environment during this past holiday season, an update of our redevelopment activities in urban assets and finally, an outlook for 2016.

Let me first begin by addressing a topic that I believe is on top of everybody's mind which is the recent high volume of trading in our stock on certain days. As a matter of policy, we don't comment on rumors in the marketplace and don't intend to this morning or in the future. What I will do is remind our investors of our corporate governance guidelines that we put in place when GGP was recapitalized and recommend investors review this information which is on file with the SEC and available on our website.

The management team and the members of the GGP Board take our fiduciary responsibilities seriously and recognize that as stewards of this public company we will always act in the best interest of our shareholders. This represents the extent of my comments and any questions during our Q&A session relating to market rumors will not be answered as it would be irresponsible and inappropriate to do so.

Now turning to our results for the fourth quarter. Same-store NOI increased 6.7% followed by a 6.5% increase in EBITDA. FFO per share increased nearly 14% to $0.43, the top end of our guidance range. For the full-year, same-store NOI increased 4.8% followed by a 5.4% increase in EBITDA. FFO per share increased nearly 9% to $1.44 which is near the top end of our guidance range.

Lease spreads for 2015 commencements were nearly 11% and spreads for 2016 commencements continue to be healthy. The same-store portfolio was nearly 97% leased at year end and over 92% permanently occupied. Looking into 2016, our goal is to lease approximately 9 million square feet. To date we have leased over 60% of our goal.

We have raised our guidance for 2016 by a $0.01 at the midpoint primarily to account for the accelerated rent commencement date at 730 Fifth Avenue and other (inaudible) representing nearly a 7% per share growth and also declared our first-quarter dividend.

Comparable rent sales were up 3% on a square foot basis. A point to be noted is if you back out Apple sales, growth improved 4.5% for sales of retailers less than 10,000 square feet and over 4% for all retailers excluding department stores. Parsing the portfolio by quality grade, we experienced sales increases throughout the country. Nearly every major retail category was up with the exception of electronics primarily due to Apple .

Shopper traffic in our centers has been strong. Looking back over the past several years from our estimate we have experienced positive trends in each year. In 2012, traffic was up over 4%; in 2013 3%, flat in 2014; and up 2% in 2015.

During the holiday season I had the opportunity to visit several of our malls. During the Thanksgiving weekend I was at several of our malls between 11 PM and 2 AM and I noticed that the parking lots were full and the most interesting thing to me was the shoppers were generally millennials.

We are regularly comparing the productivity of our portfolio to the national average. We look at overall trends, category trends down to specific retailer trends. The over-riding premise and what we have set as our mission is that the high quality retail should outperform over the long-term. I would like to share some of our observations with you this morning.

To set the stage though, it is important to put retail sales in perspective. In 2015, retail and food service accounted for about 30% of the US GDP and e-commerce accounted for about 2%. Since 2010, total retail sales in the US have grown nearly 13% and it should be noted that our portfolio has grown over the same period 23%.

We see this not only in sales productivity but also the lack of vacancy within the malls and the pent-up demand for space. The mall continues to evolve in step with consumer demand and interest and we see it occurring throughout our portfolio. For example, [Frankenab], Bonobos, Shinola, Birchbox and (inaudible) are scaling up operations by opening stores.

Grocers like Wegmans and Kroger's are coming into the malls. Personal services like SoulCycle and Drybar are important elements on the outsides of our malls and of course, entertainment venues and restaurants.

Expansions and new store openings by existing brick-and-mortar retailers this past year include H&M adding 220,000 square feet in 10 stores; Arhaus Furniture with 45,000 square feet in three stores; PINK with 40,000 square feet in nine stores; UNIQLO with 40,000 square feet in four stores; House of Hoops, a Footlocker concept now opening their own bricks-and-mortar stores with 39,000 square feet in five stores and the list goes on.

It should be noted that at (inaudible), one of the first e-commerce retailers to open a store opened six stores within our portfolio in this past year. As there is no new retail square footage on the horizon, new concepts are going into the B+ or better malls. As mentioned in our release yesterday, we closed on several property transactions recently as we continue to prune the lower tier non-core assets from the portfolio. We sold our remaining strip shopping center in Rockport, New York, during the fourth quarter. In January, we closed on a number of transactions including the following.

We sold our interest in Owings Mills Mall to our JV partner, Kimco; we sold Eastridge Mall in San Jose California; we sold our interest in Provo Towne Center in Provo, Utah, and finally, we sold our minority interest in 522 5th Avenue in New York City.

In stark contrast to the other end of the quality spectrum and evidenced by a number of transactions recently, the valuations described to A malls continues to be very strong, a divergent from current public market valuations. A malls are irreplaceable assets in high demand by tenants, highly desired by consumers and very attractive to institutional investors.

Looking globally, it is clear that the US is over retailed compared to other developed countries. New greenfield is a rarity in the mall space and given the negligible new supply expected over the foreseeable future and the likely reduction of overall retail GLA due to the imminent closure of lower-quality retail assets including malls, the fortification of A malls within the areas will continue.

Our top 100 malls account for 94% of our NOI and post sales over $600 per square foot. Our 74 A malls accounted for 75% of our NOI and post nearly $700 per square foot.

On the redevelopment front we were very pleased to open several major projects during the fourth quarter on time and on budget including the expansion of Ala Moana with a return of 11%; the expansion of Baybrook Mall with a return of 9%; the complete renovation of Southwest Plaza with a return of 9%; the grand opening of Nordstrom at Ridgedale with a return of 8%; and the grand opening of Nordstrom at

Mayfair Mall with a return of 8%. A number of other redevelopment projects are across the portfolio.

As we look to 2016, we will get started on Staten Island Mall's expansion and renovation, the relocation of Nordstrom at Ala Moana and the various redevelopment opportunities within our joint venture with Seritage, two of which have just begun at Coronado Center Staten Island Mall and we anticipate another four to commence at least by year-end.

Lastly, later this year we will start Norwalk, Connecticut, our new mall anchored by Nordstrom and Bloomingdale's contingent upon final approvals by city and state officials.

On the urban retail update, we have entered into a lease for 23,374 square feet with Coach , Inc. to open a global flagship for the Coach brand and a Stuart Weitzman at 685 Fifth Avenue. At 730 Fifth Avenue, we renewed the lease with Bulgari and as I mentioned earlier, we sold our 10% interest in 522 Fifth Avenue which we acquired in 2014. The IRR on this investment is almost 50%.

Our improved outlook for 2016 continues to be based on our key growth drivers, improved occupancy, positive leasing spreads and incremental income from our redevelopment activities. These organic sources of growth and GGP's irreplaceable portfolio are the basis of our outlook this year and beyond.

Finally, I would like to take this opportunity to recognize our teams located at our Eastern Seaboard properties who are literally weathering the storm that hit a little over a week ago. Due to the severity of the storm, a number of our properties closed early so people could get home safely and remained closed until it was safe to reopen. Our teams worked to together tirelessly over that weekend to measure the storm's impact and to determine when to reopen.

You know who you are and I sincerely thank each of you for your dedication to GGP.

With that I would like to turn over to Michael to review our financial results in more detail and expand upon our expectations for 2016.

**Michael Berman** (EVP and CFO):

Thank you, Sandeep, and good morning, everyone. First, turning to the fourth quarter, as you know FFO per-share came in at $0.43 putting us at the high end of our guidance range. The $10 million ahead was approximately $5 million from better than expected same-store NOI, $4 million of which related to better than expected net real estate tax recoveries, and we had about a $1 million higher than expected lease term fee. The remaining $5 million came from a small land sale and somewhat better than expected interest expense.

Our development projects contributed $9 million of growth in the fourth quarter which was consistent with our prior forecast.

Turning to our plan for 2016, please remember my remarks are intended to be points on a range. We are increasing our FFO per share guidance range to $1.52 to $1.56 for a midpoint of $1.54 or about 7% growth. The increase as Sandeep noted, some of which comes from leasing activity that occurred in late December, and additional expense savings across various line items, these offset an additional $8.5 million in interest expense that we will have in our variable rate debt.

I think it is helpful to review our 2016 guidance model given that the 2015 numbers are now final. The numbers in our model reflect the recent sales of Eastridge, Provo Towne Center, Owings Mills and 522 Fifth Avenue.

We continue to expect same-store NOI growth of 4% to 5% on a base of approximately $2.24 billion. Development projects are expected to contribute approximately $40 million to same-store NOI growth in

2016 consistent with what we said in last quarter's previously stated guidance. We expect EBITDA growth of 8% to 9% on a base of approximately $2.1 billion. We previously said about 8% EBITDA growth and the incremental bump in guidance as to the EBITDA growth rate of about 50 basis points.

Expected EBITDA growth would be of about 4.5% to 5.5% without the condo development we mentioned last quarter and we expect FFO to be around $1.475 billion with a share count expected of around $960 million. The previous guidance was about $10 million less.

For the first quarter of 2016, our expectations are same-store NOI of around 4% growth or approximately $555 million. We expect development to contribute around $9 million of same-store NOI for the first quarter. We expect EBITDA of approximately $525 million or growth of 6.5% to 7% and we expect FFO in the range of $325 million to $345 million or FFO per share of $0.34 to $0.36 representing growth of approximately 8.7% per share at the midpoint.

And with that, let's open it up for questions.

QUESTIONS & ANSWERS

**Operator**:

(Operator Instructions)

Steve Sakwa.

**Steve Sakwa** (Analyst - Evercore ISI):

Good morning.

Sandeep, I was just wondering if you could talk a little bit more about the Coach lease. Clearly you guys have been in the kind of buy it, fix it and then it seems like monetizing phase.

And I'm just trying to figure out how we should be thinking about this lease in particular? And then I know you won't probably provide specific comments on the actual rent, but how did the ultimate negotiations come relative to your -- I guess 6% yield expectation?

**Sandeep Mathrani** (CEO):

Good morning, Steve.

One is, you are absolutely right, I won't comment on the rent per square foot on the transaction and as we have maintained, we buy these assets and we stabilize them to a 5% to 6% yield and they did come in as pro forma. We will deliver this space to Coach by May of this year and we will evaluate how we should handle the transaction going forward whether we hold or sell. I

t is our job to allocate capital. It is also our job to make sure that we prune assets and we recycle capital so we will evaluate that later in the year.

**Steve Sakwa** (Analyst - Evercore ISI):

Okay. And I guess a second question, just given that we are now through the holiday shopping season and we are sort of in the period where tenants may file for bankruptcy or talk about store closings, just kind of what is your expectation, how has that changed as we look forward and has that changed at all in the way you think about your guidance for this year?

**Sandeep Mathrani** (CEO):

So again, we actually do believe that this year will be better than last year. As we have mentioned in several meetings and NAREIT, we have always said concern over a couple of tenants. The jury is still out on those tenants and so we are not in a rush to change our guidance which you know as we have mentioned we had reflected -- we were conservative in holding back a reserve for bankruptcies. I think we have to see how the first quarter goes before we can reverse any of those expectations.

**Steve Sakwa** (Analyst - Evercore ISI):

Okay, thank you.

**Operator**:

Christy McElroy, Citi.

**Michael Bilerman** (Analyst - Citigroup):

Good morning. It is Michael Bilerman here with Christy. Sandeep, I am not going to ask you to comment on any rumors about GGP but I would like you to sort of walk through a little bit about how you and the Board reacted when BAM made an unsolicited offer for Rouse on a Saturday morning? And I am just curious as you think about your role and the independent Board members when that occurred, is there any level of preparedness that you are going through either engaging bankers or lawyers so that you are well prepared in the event that they potentially do the same thing with GGP?

I understand all of the shareholder agreements but I think it is helpful for investors to understand how well-prepared you would be and the independent Board members would be should they make a similar approach out of the blue.

**Sandeep Mathrani** (CEO):

Michael, you are Canadian. You [shouldn't] ask that question, you know. It is sort of a Canadian thing to do. So as we have maintained consistently and as I did in my original comments, the Board is always prepared. This is not the first time we have had this experience, we have had it with Ackman in the past, we have had it with other companies in the past so our Board has always been prepared.

We have corporate guidelines listed which sort of allows us to understand -- it is slightly different I think than in the case of Rouse and so we are prudent and we will do what is right for the shareholder. We always have maintained that.

**Michael Bilerman** (Analyst - Citigroup):

So nothing changed relative to after that occurred per se?

**Sandeep Mathrani** (CEO):

No.

**Michael Bilerman** (Analyst - Citigroup):

Okay. Christy has a question too.

**Christy McElroy** (Analyst - Citigroup):

Just what is the timing of the drawdown of the remaining proceeds from the JV sales at Ala Moana? And in the context of your sources and uses this year, where do you expect that to end the year from a leverage standpoint?

**Michael Berman** (EVP and CFO):

The timing of the second payment on Ala Moana is the fourth quarter, consistent with certain construction timelines. We have always expected it to be at that time and we don't expect our debt level to be higher between now and the end of the year. Hopefully it will start ticking down. We think we are at about an 8 to 8.5 net debt to EBITDA number for 2016.

**Christy McElroy** (Analyst - Citigroup):

And then Michael, just given your recent financings I'm wondering if maybe you could give us some observations around the financing market for malls around sort of across the quality spectrum and how that maybe changed in the last three to six months?

**Michael Berman** (EVP and CFO):

A malls is never really in the discussion, very strong market, a lot of appetite. When you move away from the A and really top B+ malls, everybody wants the group them all together as one giant pot. Our view is every asset has its own business plan, its own story, its own leverage requirements. We did three B malls in the fourth quarter and got what we thought were pretty good deals considering the volatility in the marketplace. We have a couple of B malls that we have coming due this year and we would expect to be able to address them successfully.

The market has gotten more volatile in terms of dealers committing, spreads, the treasuries have come down. You haven't really seen a lot of change in the overall interest rates that you are being quoted.

**Christy McElroy** (Analyst - Citigroup):

Thank you.

**Operator**:

Caitlin Burrows.

**Caitlin Burrows** (Analyst - Goldman Sachs):

Good morning. You mentioned that your sales were up 3% on a comparable basis and I think that is on the trailing 12-month basis. I was wondering could you comment on your 4Q and holiday sales in particular and whether you saw any difference by markets?

**Sandeep Mathrani** (CEO):

Actually not. As I mentioned, it was 3% for less than 10,000 feet and actually for all retail excluding the department stores and it was about 4.5% ex-Apple and 4% for all retail ex-department stores without Apple . And the holiday season sort of stayed in that same sort of wheelhouse, it was about the same 3% to 4% up.

**Caitlin Burrows** (Analyst - Goldman Sachs):

Okay. Then just when you think about leasing up your portfolio over the course of the year, I know somebody asked before about your expectations for bankruptcies and you said there could be some but could you just comment on how you expect that to play out?

**Sandeep Mathrani** (CEO):

Again we have maintained that in the last quarterly call that we have held a credit reserve because we anticipated at the time several large bankruptcies to occur in 2016. And the jury is out whether they will occur in 2016 and I think usually we will wait until the end of the first quarter because that is a time when you start to see the telltale signs whether someone is going to file. And so at this moment in time we are going to maintain our course and hold our conservative net reserve. -- credit reserve.

**Caitlin Burrows** (Analyst - Goldman Sachs):

Okay, thank you.

**Operator**:

Ki Bin Kim, SunTrust.

**Ki Bin Kim** (Analyst - SunTrust Robinson Humphrey):

Thanks. First, just to follow up on that last question and I believe the reserve was $50 million. Does that reserve cover 100% of what you are considering large bankruptcies or is that a midpoint in case that event occurs?

**Michael Berman** (EVP and CFO):

The reserve was $20 million. It is embedded in guidance, not necessarily specific to any particular tenant. It is just a general conservatism that we built into the guidance model.

**Ki Bin Kim** (Analyst - SunTrust Robinson Humphrey):

Okay. And Sandeep, if you could maybe comment on 685 Fifth Avenue, I know you have re-signed the Bulgari lease but for less space. Could you comment on where the yield is coming out for that asset? I know your original guidance was 70 to 80 when you first talked about that project. But where is it today?

**Sandeep Mathrani** (CEO):

So it is 730 Fifth Avenue with the Bulgari lease, not 685, just to not confuse people on the line. And our expectation was a 5% to 6% yield which is exactly the same so it is $70 million to $80 million.

**Ki Bin Kim** (Analyst - SunTrust Robinson Humphrey):

Okay. Thank you.

**Operator**:

Alex Goldfarb, Sandler O'Neill.

**Alex Goldfarb** (Analyst - Sandler O'Neill & Partners):

Good morning. First question is on the street retail, Sandeep, you sort of mentioned the potential to sell assets as you lease them up, stabilize them. Previously I thought that you guys had spoken about wanting to develop a portfolio sort of akin to a mall type square footage and street retail. So can you just walk through the differences? Maybe there is a difference between certain properties where what is done is done and therefore the best opportunity is to sell versus the street retail assets that you would keep to maintain over time?

**Sandeep Mathrani** (CEO):

Again what I did say was I said we would evaluate like we evaluate all our assets and determine based upon the growth rate, based upon our partnership interest which ones we would hold long-term and which ones we would sell. At this moment in time, our intent is to hold the assets that we have at 685 Fifth

Avenue 730 Fifth Avenue but we will make that decision as the year goes on. I think 730 Fifth Avenue you can assume will be a long-term hold and the others we will evaluate based upon our partnership interest with our partners.

**Alex Goldfarb** (Analyst - Sandler O'Neill & Partners):

Does that have anything to do with recent sort of changes or softness in street retail or that -- it seems to be a little bit of a shift so just curious?

**Sandeep Mathrani** (CEO):

Actually it will be a little bit in the reverse because it is huge demand, institutional and private wealth demand and very aggressive cap rates, I would say 2 to 3 cap on New York City real estate. And we have been able to achieve our pro forma rents so if anything it may be prudent to take advantage of the major disconnect in private and public pricing and we will evaluate like I said as the year goes on.

**Alex Goldfarb** (Analyst - Sandler O'Neill & Partners):

Okay. And then the second question is for Mike. Mike, just in some of the recent CMBS trade publication articles on volatility based on dealer inventory levels being low and issues with B retention pieces and all of that dealing with new regulations. So as you guys look at your financing platform and strategy, is there any view to potentially shift away or broaden away from the mortgage whether it is life or CMBS or do you guys view that the issues that the mortgage markets are dealing with right now will eventually be worked through before you guys get to the more meaningful maturities in 2017, 2018, 2019?

**Michael Berman** (EVP and CFO):

I think we are going to stick with the mortgage markets as our primary outlet. Keep in mind that one of the big changes in the CMBS market is the requirement for issuers of paper to retain more of the risk year pieces and that is forcing the market to kind of deal with that element.

From a long-term perspective, I actually think that is a very beneficial element. It is going to make the underwriting cleaner, it is going to make it -- the better properties and the better sponsors are going to benefit in an environment where there is more of a focus on quality of earnings and quality of assets.

So I am not making a comment on the CMBS market overall. I just think that GGP given its asset base and its history will continue to thrive in the mortgage market.

**Alex Goldfarb** (Analyst - Sandler O'Neill & Partners):

Okay, thank you.

**Operator**:

Ross Nussbaum, UBS.

**Jeremy Metz** (Analyst - UBS):

Good morning. Jeremy Metz on with Ross. Just one quick one. Michael, I was wondering if you can talk about the same-store results this quarter, what in particular drove the big uplift? Was it just redevelopments or was there some earlier than expected condo gains maybe from Ala Moana starting to creep in there?

**Michael Berman** (EVP and CFO):

The Ala Moana condo gains don't hit us until approximately the second quarter. And again, it depends on the construction process. Anything that was one time that we knew about we had already put into the guidance. It was really as I said, there was a helpful net tax recovery which is not unusual at the end of the year. We got a little bit more in lease termination income so $5 million in a particular quarter is almost 1% on the same-store NOI growth.

**Jeremy Metz** (Analyst - UBS):

Okay. And then just turning to redevelopment just in terms of Miami and Staten Island, I guess maybe first Staten Island costs went up again. I don't know if that is -- you had mentioned the Seritage box you just started working on but obviously yields were unchanged. So I'm guessing you will be able to recover that in rents.

And then in terms of Miami, it looks like you took your ownership up just a little bit in the design district so I was just wondering who was selling on the other side there and if there is an opportunity and a desire to increase that further in 2016?

**Sandeep Mathrani** (CEO):

Again in the case of Staten Island as we refine our costs, which are now finalized because we bought out the trade and that is based upon the final approvals that we have gotten and again we have done a fair amount of the leasing so it had no impact on the yield, to the yields that are the same if not slightly better. So I think construction is about to start and has actually started in a way but gets going in full force in about 90 days.

So that is a $200 million-ish or so expansion. Miami Design District, we have always liked the asset and even though we have a 12.5% interest we felt that there was an ability to incrementally increase our ownership interest in the property and we had an opportunity to increase it by 2.5% and it came half from Dacra and half from L Capital. And I think we will see if more comes available and if we are a player to continue to buy more of that asset.

But at this moment in time we are happy with the 15% interest that we will evaluate as the year goes on whether we deploy more capital into that asset.

**Jeremy Metz** (Analyst - UBS):

All right, thank you.

**Operator**:

Vincent Chao.

**Vincent Chao** (Analyst - Deutsche Bank):

Good morning everyone. I just want to go back to the comments on the private (inaudible) market discount and maybe taking advantage of the still very strong cap rates in the street retail market. I was just curious if you were to monetize those assets and you do have some development capital to spend but just curious where you think that money would go towards is my first question.

**Sandeep Mathrani** (CEO):

One of the interesting things as we have said in the past is that when we bought the urban retail assets, it has impacted our debt to EBITDA ratio because we have taken on debt to buy those assets with no income on the other side. And so if one does sell any of those assets, there's obviously a very positive impact to debt to EBITDA ratio and with the additional capital again we will evaluate to make capital allocation decisions between what we have done in the past which is the debt pay down or reinvestment in our development pipeline.

At this level of our stock, we are not purchasers of our own stock. We have been very prudent about that, cognizant about leverage issues and we only look to buy stock when it is at a deep discount or what we believe is NAV. We have been prudent and showed you our hand at what the price would be. So we would evaluate to either pay down debt or reinvest it in further development activities (inaudible).

**Vincent Chao** (Analyst - Deutsche Bank):

Okay. And then just understanding -- it sounds like you don't consider the stock today at a significant discount and I think you were buying back $25 but to the extent that you are still trading at a discount to NAV, just curious -- I know we have had many, many discussions about leverage and your thoughts on leverage and that kind of thing but it does seem that is clearly one thing that does weigh on the stock relative to some others. If the discount persists, is that something you would ever revisit in terms of the overall leverage (multiple speakers) ?

**Sandeep Mathrani** (CEO):

As I mentioned to you, you asked me what I would do with the capital on our debt to EBITDA ratio for 2016 will be in the 8 to 8.5 as Michael said. You asked me what I would do with the capital. I have proven the thesis that last year we paid down $600 million of debt to the Ala Moana proceeds and if we did sell another retail asset, we would either pay down debt at this stage of the game or redeploy the capital in redevelopment activities which produced 8% or better returns which is again has the same impact which is to increase EBITDA and reduce debt to EBITDA ratio.

**Vincent Chao** (Analyst - Deutsche Bank):

Okay. Thanks.

**Operator**:

Paul Adoranato.

**Paul Adoranato** (Analyst - BMO Capital Markets):

Thanks. Was wondering if you noticed any impact from the international luxury shopper the way your peer reported last week?

**Sandeep Mathrani** (CEO):

The answer is yes. If you look at retail productivity in Ala Moana, it was down almost 8% to 10%. Fashion Show Mall in Vegas was down 3.5% to 4% so we did see a fair amount of impact. If you actually take out Ala Moana and Vegas, our retail sales which I said earlier went up by 4.5% would have gone up well over 5%.

**Paul Adoranato** (Analyst - BMO Capital Markets):

Thanks for that. At the low end, could you perhaps provide a few sales growth metrics for malls under $450 a foot?

**Sandeep Mathrani** (CEO):

They have been obviously at the lower end of the spectrum. However, they have been positive. The B and B+ malls have been positive, flat to up a percent or two. Obviously the disparity is a lot greater to the A malls which have grown much faster than the B and B+ malls. And obviously the B and B+ malls are positive as a result of bankruptcies of tenants that come out of the equation.

**Paul Adoranato** (Analyst - BMO Capital Markets):

Great. Thank you.

**Operator**:

Craig Schmidt, Bank of America .

**Craig Schmidt** (Analyst - BofA Merrill Lynch):

Thank you. In looking at your top 10 tenants, the gap in third-quarter went from 3.5% to 2.8% this quarter. I wonder what drove that down?

**Sandeep Mathrani** (CEO):

Stores closing which I view to be a positive. We were able to obviously not renew stores that were lower productivity. We were able to replace them with higher productivity retailers so we actually view that to be a positive.

**Craig Schmidt** (Analyst - BofA Merrill Lynch):

Was natural role that closed?

**Sandeep Mathrani** (CEO):

Is coming natural role. Natural role, natural role.

**Craig Schmidt** (Analyst - BofA Merrill Lynch):

Okay, thanks. And then on Quail Springs, what are your thoughts on what to do with the Macy's anchor?

**Sandeep Mathrani** (CEO):

We were actually pleased to be able to get that space back again. We are working on a redevelopment plan to potentially relocate the movie theater and replace the existing movie theater with more restaurants. So it is actually going to be more entertainment. If you know the shopping center it sits in a midpoint, so it doesn't really anchor either end of the mall. It was a very low productivity store and we were happy to be able to have the option to recapture it.

**Craig Schmidt** (Analyst - BofA Merrill Lynch):

Great. And then on SoNo collection, I see the stabilization is 2020. What opening does that assume?

**Sandeep Mathrani** (CEO):

Late 2018, early 2019. It all depends on when we start construction, Craig, so we are being conservative.

**Craig Schmidt** (Analyst - BofA Merrill Lynch):

Okay, thanks a lot.

**Operator**:

George Auerbach.

**George Auerbach** (Analyst - Credit Suisse):

Thanks. Good morning. Michael, you mentioned that development would add about $9 million of NOI to the first quarter and $40 million for the full year. I guess why wouldn't the NOI run rate have a stronger ramp as we move through the year and more stores open up? And as a follow-up, how should we think about the yield run rate on the development assets as we exit 2016 and head into 2017?

**Michael Berman** (EVP and CFO):

Okay, the first one you're going to have to repeat because you went real fast. The second one I think the yield on the current spend is north of 8% and it ramps up to the end to where we get to the 9% to 10%. Can you repeat the first question a little bit slowly, please?

**George Auerbach** (Analyst - Credit Suisse):

I misheard you, I thought you said that in the first quarter development would at about $9 million of NOI and about $40 million for the year and I guess I would've thought that the run rate would have had a bit more of a ramp to it.

**Michael Berman** (EVP and CFO):

Remember that is the incremental change and it does come in pretty ratably over the year given the timing of the project.

**George Auerbach** (Analyst - Credit Suisse):

Right, so I guess on $1.2 billion of development that is open as of the fourth quarter, do you have a sense for what the NOI was coming off of those assets?

**Michael Berman** (EVP and CFO):

It is about $90 million to $100 million.

**George Auerbach** (Analyst - Credit Suisse):

Great, thanks. Last for me, I think you said that there is about $10 million of better operating asset NOI growth in the new 2016 guidance. Sandeep mentioned in his opening comments that part of it is due to the faster rent commencement at 730 Fifth Avenue. But is that the entirety of the increase or were there other revenue or expense items that you now have more clarity on?

**Michael Berman** (EVP and CFO):

Some of the growth came from the urban leasing. That is in our non same-store NOI. The rest of the increase came from items such as G&A, lower than expected tax provision. It wasn't the same store NOI per se that changed.

**George Auerbach** (Analyst - Credit Suisse):

Great, thank you.

**Operator**:

[Carolyn Layton], JPMorgan .

**Mike Mueller** (Analyst - JPMorgan):

I think it is supposed to be for me. It is Mike Mueller. So I think the average portfolio occupancy cost is in the mid-13s for 2015. I was wondering, can you talk about how that compares to where you are signing leases, where the leases signed in 2015 were?

**Sandeep Mathrani** (CEO):

It is again being very consistent. If you are in the A mall business, you are at 15% to 17%. If you are in the B+ business, you are between 13% to 15% and if you are a B business, it is what it is. So the new leases are getting signed depending on the productivity of these center and in the ranges I told you. It sort of averages out to 13%. Again, please appreciate you only have 5 million square feet out of 60 million square feet that rolls every year. So the impact of that occupancy cost is not going to be dramatic year-over-year.

**Mike Mueller** (Analyst - JPMorgan):

Got it. And then it looks like you booked some land sales gains in NOI, same-store NOI in the fourth quarter, I think it was about $10 million. Is anything embedded in the 2016 same-store NOI guidance similar to that?

**Michael Berman** (EVP and CFO):

In the fourth quarter we had the other half of a land sale we did at Ala Moana. In the 2016 there is some one-off events that are part of the overall guidance.

**Mike Mueller** (Analyst - JPMorgan):

Okay, that was it. Thank you.

**Operator**:

Floris van Dijkum, Boenning.

**Floris van Dijkum** (Analyst - Boenning & Scattergood):

Thanks. Sandeep, you guys have about 5% temp tenancy right now, 97% overall occupancy. Do you expect that you will see some of that temp tenancy in the next 12 months to be turned into potentially permanent occupancy?

**Sandeep Mathrani** (CEO):

We are hopeful barring bankruptcies to get that 92.3% permanent occupancy up to 93% by year end so that is our goal to reduce the temp down by call it 50 to 100 basis points.

**Floris van Dijkum** (Analyst - Boenning & Scattergood):

Great. And could you maybe talk about, I mean obviously most of your redevelopment capital according to our estimates, you are retaining about $600 million of cash flow every year that you are applying back in your redevelopment. As you think about the allocation to fortifying existing A assets as opposed to turning some of your B malls into potentially A malls, maybe talk about the thought process and also maybe touch upon what you think is happening at Southwest Plaza in Littleton?

**Sandeep Mathrani** (CEO):

So most of our spend, almost 70% to 80% of our spend has been on the A malls and the fortification of the A malls and we haven't done much beyond as you know densification for retail purposes at the A malls to date. We did take a couple of B, B+ assets and invest capital into them. Two that come to mind, one is Southwest Plaza as you mentioned. We were very pleased with the opening of Southwest Plaza, the food hall and the retailer productivity has gone up dramatically. We see that mall which is probably a [$300] (inaudible) mall with a 50% occupancy, 60% occupancy to climb to 90% by year end and sales productivity be well over $400 a square foot.

The traffic was very good during the holiday season so it seems that that investment will pay off handsomely, the return on our investment was almost over 9% there so we deployed $70 million to $80 million and got a 9% return so we view that to be so far successful and again we were able to do that there because the demographics justify the expenditure.

We did do that at one more mall, we did that at Lynnhaven Mall in the Norfolk market. We invested -- I don't know, $40 million-ish or so and I think that mall is now almost a $500 plus mall. So again, when the demographics are prevalent, investing in these B, B+ assets, you do get the opportunity to upgrade the asset to a higher-quality asset. But still 70% to 80% of our capital gets deployed into what we would call A malls.

**Operator**:

Rich Moore.

**Rich Moore** (Analyst - RBC Capital Markets):

Good morning, guys. You are off to a pretty good start this year in terms of B mall dispositions. And I am curious how more of that you have in the pipeline and maybe how aggressive you are going to be at targeting dispositions in 2016.

**Sandeep Mathrani** (CEO):

As we've been -- Richard, we have said consistently our job is to, one, keep pruning the lower quality assets. We are not, with the B malls, are not very cap-rate sensitive because our business as I mentioned earlier,100 of our malls which are B+ or better get this 94% of our NOI. So the B mall is probably 3% or 4% and other assets are probably 1% or 2% of the NOI.

So we are not cap-rate sensitive, but their market is not deep enough and we will continue to prune the portfolio opportunistically in a disciplined manner. So you could expect us to dispose of B malls as the year progresses.

**Rich Moore** (Analyst - RBC Capital Markets):

Okay. Sandeep, what is the market like for those assets? Is there a lot of interest when you take one to market or is it pretty thin?

**Sandeep Mathrani** (CEO):

In our opinion, it is a very thin market. You have generally got the money sources to be the same people that tie up with different local entrepreneurs throughout the country, and so it is a fairly thin market. It is also conditioned upon the financing markets and I mean the [Eastridge] mall was financed by Bank, the Provo small was financed by Bank of America and so there is a market, it is a bank market but is obviously not as deep as well.

**Rich Moore** (Analyst - RBC Capital Markets):

Okay, great. Thank you, guys.

**Operator**:

D.J. Busch

**D.J. Busch** (Analyst - Green Street Advisors):

Just a follow-up on Rich's question. Knowing that the bottom call it two dozen or so are not long-term holds and they're not price-sensitive but how do you go about operating those in the meantime and then compared to kind of the B+ malls where you said there is some rental demand, what is the demand for space at your B centers right now?

**Sandeep Mathrani** (CEO):

So actually what we are seeing is that there is a move of several retailers that used to occupy space at A and B+ malls that have been priced out of the market which are mall operators or mall tenants going into the B malls. So our occupancy is actually doing quite well in the B mall sector. We have dedicated a team of professionals and leasing people to focus on the bottom call it 15, 18 malls to get them more focused so that we can make sure that the leasing activity stays strong. Because as I have always maintained, the B mall sector is an occupancy play not an occupancy and rate play.

So the demand seems to be there. You have got tenants like Dress Barn, [Maurice's], rue21 , Children's Place, Footlocker , Victoria's Secret that continue to take space in those malls and also you've got the a bigger players, the bigger uses of space, the value retailers that are coming into this mall. So we actually see a healthy lease up. Again it is an occupancy play, not an occupancy and rate play.

**D.J. Busch** (Analyst - Green Street Advisors):

So based on those comments, I think that those comments would be similar to what we may hear from owners that predominantly own B malls. It sounds like there is a demand at that level of mall quality. So what makes the market so thin if it is not kind of the operational prospects, is it simply the lack of financing or the perceived financing risk that comes with these B malls that makes the market so thin?

**Sandeep Mathrani** (CEO):

I think it is two things. I think it is the equity of backers who are skittish on long-term potential and I think it is the debt markets. Although we have been successful in selling, I mean we sold Provo which was the $230 square foot mall in January, closes a week ago and so there is a market, it is thin.

**D.J. Busch** (Analyst - Green Street Advisors):

Maybe just one last question on the top of the mall quality spectrum. You have plenty of -- very high-end A mall to make up a good percentage of NOI or value. If you see your discount grow even further, the discount to where your stock is trading relative to NAV, at what point do you start to look through the portfolio for maybe A malls that are stabilized they don't have the redevelopment opportunities going forward and you look to kind of close the gap by selling some of those assets to the (inaudible) retailer or lower productivity malls?

**Sandeep Mathrani** (CEO):

As I mentioned in my comments, I said there was a disconnect between private and public market valuations of the A+ malls and there is a tremendous demand by institutional investors. Again the Board and I view that disconnect and will evaluate at what stage we decide to bring into joint venture partners for a portion of those assets if we do at all because we have points well taken and we are in deep thought.

**D.J. Busch** (Analyst - Green Street Advisors):

Okay, thank you.

**Operator**:

Linda Tsai, Barclays.

**Linda Tsai** (Analyst - Barclays Capital):

Thanks for taking my question. In light of your comments on holiday traffic, do you think you will comment on traffic going forward? I think in the past you didn't like to discuss it because it came from external flash unreliable sources but now you are measuring it in your malls.

**Sandeep Mathrani** (CEO):

I think as we continue to measure them, we are happy to give the data because the irony is that the mall traffic is actually up. One of the biggest pain points during the holiday season was lack of parking so we are obviously seeing people come to the mall. We are seeing them stay longer at the mall, they are shopping a lot fewer stores when they come into the mall but they are definitely roaming the malls and shopping.

So if you have got the product, the consumer is doing their research on their mobile device and coming into the mall to shop which is why still to date from a soft goods perspective, almost 95% of mall soft goods are bought in the bricks and mortar store.

And I think the other factor that very few people really pull into the equation is that the return rate on the soft goods is incredibly high. I think it is 38% of e-commerce purchases for soft goods that are bought online and return to the bricks and mortar store. So to really get a true and proper understanding until the retailers start to show you exactly what the return rate is and how it is being impacted is really hard to evaluate in this omnichannel world why one growth is bigger than the other because you have to take the return rates into account which really no one does.

And this case in point, you've got Amazon opening bricks and mortar bookstores and their goal is to open as I understand 300 to 400 bookstores and it should sort of sit back and say that the last mile is all-important which is why Bonobos is opening bricks and mortar stores and Warby Parker is opening bricks and mortar stores and Birchbox is cutting their overhead to open bricks and mortar stores.

It is a very interesting evolution because the cost of the last mile is that important and again the mall business you have to appreciate which is more focused on fashion is very different than a staple business where you are buying commodities. So in the mall business, the impact of e-commerce is a lot less, it is actually your friend, not your enemy.

**Linda Tsai** (Analyst - Barclays Capital):

Thank you. And then just a follow-up for Michael. Of the $20 million you have reserved for store closures, how much of that might be split between department stores versus in-line?

**Michael Berman** (EVP and CFO):

It is a general number, there is no specificity attached to it.

**Linda Tsai** (Analyst - Barclays Capital):

Okay, thanks.

**Sandeep Mathrani** (CEO):

But I would sort of sit back and say that the rents that are paid by the department stores are virtually nothing. So on the contrary if a department store closes, the only impact you will have is that co-tenancy impact that effectively should be a positive add-on on at least 100 of our top malls for the ability to re-lease them at positive spreads.

And so I would sort of sit back and say that 90% -- I'm making that number up -- but a large percentage of that $20 million is allocable to the inline tenants.

**Linda Tsai** (Analyst - Barclays Capital):

That is helpful. Thanks.

**Operator**:

I'm showing no further questions at this time. I would like to turn the call back over to Sandeep Mathrani for closing remarks.

**Sandeep Mathrani** (CEO):

Thank you all for joining our call this morning. Please do contact Michael or Kevin with any future questions. Have a great day.

**Operator**:

Ladies and gentlemen, thank you for your participation in today's conference.