Q1 2019 Earnings Call

Company Participants

- Frederico Villa, Chief Financial Officer
- Ruy Kameyama, Chief Executive Officer

Other Participants

- Alex Ferraz, Analyst
- Jorel Guilloty, Analyst
- Luis Stacchini, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Motta, Analyst
- Nicole Inui, Analyst
- Renan Manda, Analyst
- Tito Labarta, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for waiting. Welcome to the BR Malls Conference Call to discuss the results of quarter one 2019. Today, we have with us Ruy Kameyama, Frederico Villa and Derek Tang. We inform you that all participants will be in listen-only mode during the Company's presentation. Then we'll welcome for questions-and-answers, when further instructions will be given. (Operator Instructions)

Before we continue, we would like to clarify that any statements made during this call relative to the Company's business perspective, projections and operating and financial targets are based on beliefs and premises of BR Malls' management as well as information currently available to the company. Forward-looking statements are not a guarantee of future performance. They involve risks, uncertainties and assumptions because they refer to future events, and therefore depend on circumstances that may or may not take place.

Now, I would like to pass the floor to Mr. Ruy Kameyama for his presentation.

Ruy Kameyama {BIO 16672412 <GO>}

Good morning, everyone. Thank you for participating in our quarter one 2019 conference call. We will start by presenting the highlights of the period, and then we'll open for questions.

We will start with our operational indicators on Slide 3. The total sales of the company grew 6.1% or 7% if we exclude the Sete Lagoas mall sold in February, totaling BRL4.9 billion in the first quarter, reflecting both the growth of our installed base and the good performance of the tenants, who inaugurated stores in the last 12 months. Same-store sales grew by 1.5%. We had a strong start of the year in January and February. But in March, our sales performance was lower, and additionally it suffered the impact of Easter seasonality. If we exclude the effect of the Easter, we would have grown 2.6% at the same level seen in quarter one 2018.

We once again highlight the performance of the Midwest region with the greatest same-store sales increase in the quarter, growing 5.9%. The same-store rent indicator is recovering and showed the third quarter of consecutive improvement with a growth of 5.7%, which was substantially better than one year before. We think this decrease is due to the higher inflation rates and the decrease in discount concessions.

On Slide 4, we see the work that has been done in terms of renewing our mix and the changes in our collection process, which allow for the lowest net delinquency rate in the first quarter, in the last four years, which was 3.7%. The late payment indicator which corresponds to growth delinquency was 7.7%, a drop of about 2% points compared to quarter one 2018. In the quarter, the expenses of provision for bad debt was BRL6.6 million or 21% of the net revenues, which is a percentage close to the prerecession levels. In this quarter, we were also impacted by the provision for one of our tenants which is currently under judicial reorganization. Excluding this tenant, the provision for bad debt would have decreased in the quarter.

On Slide 5, we present our financial indicators related to our operations. Our portfolio NOI reached BRL278 million in this quarter, an increase of 3.8% versus quarter one 2018 and 4.2% if we exclude the mall that was sold, which reflects the acceleration in our same-store rent in our mall and merchandising revenues. The 45% growth in merchandising in this quarter reflects the impacts of the fresh rollout of our digital media circuit and our greater sales efforts. Our adjusted EBITDA reached BRL235 million in the quarter, increasing by approximately 1% if we exclude the mall that was sold.

In respect to administrative expenses, we have made some structural adjustments since 2017, and we believe that the current level is close to the level that we need for the coming years.

On Slide 6, we show our current capital structure. The company closed the quarter with a cash position of BRL1.4 billion, 50% higher than in quarter four 2018 and with a net debt of BRL1.7 billion, a 10% reduction compared to quarter four 2018. Thus the net debt less 12 months adjusted EBITDA indicator closed the quarter at 1.9 times. We also highlight the issuance of the company's seventh debenture totaling BRL600 million with a duration of six years and a cost of 107.5% of the CDI, and also our liability management effort.

The issuance of this debenture allows for the prepayment of BRL408 million of the company's debt. And now the company's indebtedness profile is more balanced with 49% in TR and 37% in CDI in the first quarter. Today, the TR debt represents 43% and CDI is 41% already reflecting this liability management adjustment. And we expect to see the benefits in the coming months. In terms of value generation to shareholders, they totaled BRL303 million of our share repurchase program plus the BRL135 million of interest over net equity announced and the BRL70 million in dividends approved in the last assembly meeting, coming to a total of BRL508 million returned to our shareholders in the last 15 months.

On Slide 7, we have the adjusted FFO with a growth of 14% reaching BRL176 million in the first quarter this year. On the right, we show the FFO per share and the value creation in the long-term for our shareholders. The indicator grew 16.7% to a total of BRL0.21 per share, the greatest increase recorded in the first quarter in the company's history. The main effects that contributed to this growth were the operational improvements with a growth of 5% in our net revenues -- in our net profit, the greater tax efficiency due to the changes in our income tax for one of the subsidiaries of the company and our share repurchase program.

On Slide 8, we will talk about our portfolio strengthening strategy. Carrying on with our strategy to increase exposure in core assets, we completed the sale of Sete Lagoas mall in Minas Gerais, which brings us to a total of seven malls sold since 2017. We continue with the goal of strengthening our portfolio by acquiring tier 1 and 2 malls, selling non-core assets and retrofitting our main assets.

This is the end of our presentation, and we will now answer your questions if you have any.

Questions And Answers

Operator

We are now starting our question-and-answer session. (Operator Instructions) The first question is from Alex Ferraz of Itau BBA. Please proceed.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning, Ruy. Thank you for your presentation. I have two questions. The first question is about the stable with the more productive assets. So we start to see some recovery and I think that even in quarter four last year, the trend was more negative. But can you tell whether we are seeing some recovery, excluding Estacao [ph], of course, but some of your assets are already showing some recovery. Can we say that maybe in 2019, we can see more robust recovery in the most productive assets?

And the second question is about -- I think BR Malls was one of the first companies that started to do this type of movement. And we saw two competitors (inaudible) announcing somewhat different strategies. But how do you see consolidation in your segments? And do you see any risk of the operators wanting to involve themselves in operations and could it impact your operations?

A - Ruy Kameyama {BIO 16672412 <GO>}

Alex, thank you for your question. What you said about the main assets, the most productive assets, we give a very complete disclosure about what's happening mall-by-mall with our Top 25 and the rest of our portfolio. And what we have been seeing is this trend towards recovery. So if you look at our history of the four last quarters, we also disclose our ex-sales numbers in our statements. We had minus 2.5% to plus 2% and the level that we reach of plus 4.2% in the first quarter '19 was the best growth, organic growth that we had at least in the last five quarters. This is due to multiple variables that we described in our release. But when we look at the Company's main assets, we also see this trend towards improvement and recoveries. And there that specific point of Estacao, which is reflecting some mix changes and some focal changes. But the trajectory is about the same. We see some improvements and if the macroeconomic scenario allows we think that -- well I believe it is our expectation for the next quarter to continue seeing some recovery.

About your second question about the Delivery Center, it was an important quarter for our Delivery Center operations. I'm sure that you were able to follow that for Delivery Center, we had a strong reimbursement for the entry of Outback and (inaudible). And we think this will all -- these are all important players in Brazilian retail and the shopping mall segment. And it shows that retail is adapting to the model of ship from store. Considering the difficulty, the huge infrastructure and logistics difficulty that we have in Brazil, e-commerce will get stronger and will develop differently, mostly based on last mile locals. And the shopping malls are very well positioned both for food and goods. We see a lot of important chains, anchors and satellites disclosing publicly that they are going to go to the ship from store strategy. And we have then to adjust using our scale and use the ship from mall strategy.

We think this evolution is positive. The evolution of iFood and Rappi and all these platforms. This proves this thesis that e-commerce in Brazil is the one that best meets the demand of consumers. They provide a good experience with good speed and delivery. In the end, ultimately this all strengthened our thesis that shopping malls will still be relevant in Brazil, not just because of the experience and restaurants but because of their last mile positioning. So I think this is a fast transformation that we are seeing. And our role is important, we have a leading role, helping guide the market and retailers to accelerate their plans. And this is what we have been seeing in the past two years, this important evolution in this direction.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you Ruy. Thank you.

Operator

The next question is by Luis Stacchini. Luis, you can proceed.

Q - Luis Stacchini {BIO 18717891 <GO>}

Good morning, Ruy. Thank you for your presentation. I have two questions here. In respect to the revenue lines that did well in the quarter, the services had expressive growth and mall and media or merchandising, all had a very good growth rate, especially for mall and media or merchandising. Just to make it clearer, the partnership that you have with some of these companies, can you explain what is the potential that you see for this segment? How many malls are already installed? And -- or how many you would expect to roll out in the near future? And what would be the financial incentive?

Then about revenues and services, can we expect a recurrence of this new level of revenue? And also for minimum rent, we've seen minimum rent growing 3%, even with the consolidated growth of 2%. So there is a mismatch of the same store rent. So I want to understand how much of this oxygenation of your logistic fees you have already completed? And how much do you have still to go until you can stabilize the turnover?

A - Ruy Kameyama {BIO 16672412 <GO>}

Hello Luis, thank you for your questions. About the growth in mall and media, both had good growth, but of course, the media growth was the one that drove our highlights in the quarter. This is a strategy that started a few years ago, we tried to strengthen our media area. We always understood that there is a huge long-term potential. Considering everything that is happening in the media segment, the difficulty that advertisers are having now because they used to rely on television and radio. And now with all of these new channels and platforms, we have been seeking new formats.

And our thesis was always that for shopping malls, considering that they are very close to the purchase -- the buying decision of consumers and also the opportunity of doing more interactive things in our displays and testings, but media channel has a very good long-term potential. And we have been investing in the media channel, and specialization of the team, review of our go-to-market model, our contracts, and the way we approach advertisement agencies, considering our scale. So we see a combination of factors here. We see this focus that we have been gearing to this specific strategy in our go-to-market. And also the advent of digital and an improvement on the part of advertisers during the recession. The media budget was the one that suffered the most. And what we see now with this better economic outlook is a better potential for advertising, because the media budget is included in their marketing expenses and, of course, during a recession, this is the first thing to be cut. But when the economic perspective, when economic outlook improves, companies go back to investing in advertisement, and we see a favorable outlook.

The digital is our strategy, is a proprietary circuit, it's not third party, it's not by our media, we have our private circuit. And we believe that considering our scale, the quality of our assets and this closeness that we have to consume within the adaptations that we made, we're going to see the results in the long-term. I don't know whether we're going to keep the same level, but we think that this will help in the channel growth of the company. We will continue to grow above average, and this will drive the other revenues.

About your second question, about the minimum rent and the fact that it's lower than the same-store rent, you have a correct reading. The installed base for same store rent grew faster than the total minimum rent. And we also have the entry of new tenants with the lower level than the previous, so this ended up pulling our numbers down a little bit. But most of our base is, of course, impacted by same-store rent. And now we see an improvement in the conditions in new rental also reflecting something related with supply and demand, of course. We have some malls at 96% occupancy or main assets the Top 20 are close to 97% occupancy. So there is little vacancy for demand that has been growing.

Expecting a better outlook for Brazil in general. It's not as strong as we expected, but compared to one year ago, we see and expressive improvement which reflects in that effect. So I think that for the next quarters, we will see an improvement with low vacancy and increasing demand as the economy recovers.

Q - Luis Stacchini {BIO 18717891 <GO>}

All right, Ruy. Just one last question about your services revenue that also had expansive increase. Was there any specific points? Any service line that stood out for this higher level? And should we expect this level to keep at the same pace?

A - Ruy Kameyama {BIO 16672412 <GO>}

For services, we've changed the way we provide services and we account for these services. As you know, we provide services to all the managed shopping malls. And now we are accounting for revenue that was not included in the first quarter of 2018, this is a delta of about BRL3 million. And this BRL3 million also had to do with our payroll. We had an extra BRL3 million in our services provision revenue. And in our D&A, we had minus BRL3 million in wages and in our premium -- or payroll in general. So these were the changes compared to the first quarter 2018. So when we compare the first quarter of this year and last year, we see this delta that will not be recurring.

Q - Luis Stacchini {BIO 18717891 <GO>}

Alright, thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for your question.

Operator

Next question is by Jorel Guilloty, Morgan Stanley.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Good morning. I have two questions. First question is about the revenue. The parking revenue increased 4.6% year-over-year, but the flow of vehicles increased 7.8%. So I'd like to better understand the dynamics, the growth in flow and the growth in revenue. Are we talking about smaller parking spaces? Or are we talking about discounted prices for some of the malls? I'd like to know why you have this mismatch.

And the second question, I know that you have been, you in ABRASCE, you have been working towards a change in the legislation for parking areas in the cities, which would benefit parking mall owners and managers, may you could recover your parking revenues or get rid of spaces that are not generating revenue and add more retail space. So are you able to achieve anything in this sense with any of the local government?

A - Ruy Kameyama {BIO 16672412 <GO>}

Hello Jorel. Good morning, thank you for your questions. About the parking issue, we did have an increase of about 4.5% and the flow, the vehicle flow grew more than that. We've seen improvement in the economic outlook, as I said, so this will of course, increase the flow of visitors, and this is also more favorable to increase our revenue. But this is not a 1:1 relationship, we often see differences between the different assets, malls that had a greater increasing flow. We're not necessarily the ones from which we readjusted parking fees. And there is also the average ticket. Most of our parking spaces do not have one single fee. The fee is based on the ticket or on the time they spend in the shopping mall. And in the first quarter, the movies that were on our cinema theaters were not so popular, so this has an impact on the time, the people stay in our shopping malls. And for example, the new Avengers movie was launched in the second quarter, and we're going to see a change in that, hence I'm sure. So this is what we usually see. We see this mismatch in different assets and also the average time people spend in the malls. And this was particularly low in the first quarter, the time they spent in the malls.

About the changes in legislation, the laws in the different cities were created a long time ago. When we didn't have a good offer of public transportation, we didn't have so much alternative need of transport, the digital platform. So this legislation is outdated, of course. In many cities we have seen an extension in the subway mesh. This brought a substantial impact on the flow of cars, also improvement in bus lines. So we see that there is a need for legislations to be modernized in the cities.

So we're trying to educate policymakers to show that it is possible for these cities to make changes in their laws. And even the local government, when you optimate -- or when you optimize the traffic flow in the malls, this will also have impacts on the real estate taxes and other taxes, and this bring benefits to everyone. Of course, this is a natural adaptation process. We're adapting to the new consumers to these improvements in public transportation. But of course, this work needs to be an educational work, close to all public agents, so that they can modernize the laws. This is something that we do at a local level, because laws are local. But we are seeing this in a positive light, because this is what cities need. And this will also improve the potential of our shopping malls in the long-term.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Thank you Ruy.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for your question.

Operator

The next question is from Luiz Mauricio Garcia from Bradesco. Luiz, you can proceed.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

I have two questions. First, about the FFO. This is not new, we know that you are now adjusting based on the origin. But since it's all classified as the same thing, as non-cash, it wouldn't make sense to this consider. We thought that this huge impact on this quarter benefiting your profit because you didn't remove the adjusted FFO. So I think the FFO per share is a relevant target in terms of the company's performance. It's better than moving the deferred numbers and the non-cash effects.

And the second question, in your letter, you talked about the scenario that talks about a more timid scenario in retail in Brazil. I think everybody is aware that all shopping malls had weaker numbers recently and also considering the Easter seasonality. So I'd like to know what you are planning looking forward. I think April is not a good profit because you have the seasonal effects as well. But after the Easter, how do you see -- what -- can we expect an improvement or a weaker scenarios for demand and improvement?

A - Ruy Kameyama {BIO 16672412 <GO>}

Good morning, Mauricio, thank you for your questions. About the FFO, we had two impacts on our tax. I'll -- the first was the interest over net equity. This is something that we have been doing since last year, and it's very good for all our shareholders and for the company as well. And about the deferred income tax, what happened was that in one of our subsidiaries, we changed from presumed profit to real profit. And in this change, there was a deferred in context on the accumulated fiscal [ph] losses. And due to accounting standards, we had to account for that. But this benefit will be cash, so this is not something that will not be converted into cash. It will be converted into cash, and it will be captured in the coming years.

The way to account based on the accounting laws is that's why we recorded this in this quarter, but it is a cash benefit just like intra-government equities of cash benefit to our shareholders. So the cash nature, because of its cash nature, we decided to account for this now and present this in the FFO and FFO per share. About the macro scenario, we were expecting to see some improvement in this quarter. But because as I said, we had a strong recovery in January and February, but then in March, the numbers were not as we expected. So what do we see? I think that we are -- go through a recovery period which will still be slow in 2019, while we look in our same-store sales, we were expecting to see a little bit more growth. But at the same time, we see some important macroeconomic conditions improving and recovering. And we're expecting a solid recovery.

We see lower interest rates, lower inflation, more credit to individuals and companies, so we think it's a favorable environment, but we're still lacking some confidence in the market and by the economic agents. But we should be -- we should see a stronger confidence after the pension reform. But regardless of all this, our total sales grew close to 7%. So our portfolio as a whole had the impact of the same-store sales, but also the impact of the new tenants, the new stores inaugurated with a much stronger performance. And of course, this will have an impact on the logistics phases that we currently have. So we always look at the same-store sales, but we also pay close attention to the total sales profile. And in our case, since we've been doing these important changes in the mix of our stores in the last 24 months, the weight of the total sales is greater. We have to pay special attention to that. This is how we see it internally.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

All right. Just a follow-up about the deferred income tax. There are other lines that will also be turned into cash over the year, as soon as we realize it. But why do you adopt three -- two criteria for that? Because of course, everything can be turned into cash if things actually actualized, but why do you segment this at this point?

A - Ruy Kameyama {BIO 16672412 <GO>}

All right. Let me try to help answer the question. When you look at the adjusted net profit, the FFO, what we are adjusting here is the non-cash of the 11,638 adjustment for depreciation over our equity for investment. The deferred income tax in this case of this integral subsidiary that we have, this is the effect that will become cash -- will actually become cash. So we have moment [ph] zero, and then this effect no longer exists. So it's not about whether it being cash or not. It will be cash and that's why we're treating it as so. The other impact will depend on a concretized sale, and that's why we treat it as non-cash at this point. But it will become cash as soon as the sale happens. So this is how we treat this internally.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

So it will become cash, but it shouldn't be significant in this next quarter, right?

A - Ruy Kameyama {BIO 16672412 <GO>}

No, it will not be significant in the quarter, but it will be cash. It's not a deferred income tax that is depending on a condition. It's not dependent anymore. So it is a fact that it will become cash. If I don't treat it this way, it would never affect my FFO.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Okay. Thank you. It's clear now. Thank you.

Operator

The next question is from Andrea Margeni [ph], Citibank.

Q - Unidentified Participant

Good morning, Ruy, Fred, I have a question about the Tijuca asset. It was a 3% increase in sales. You said that there was an important change. Are these challenge that are now entering and now are selling a lot maybe in your restaurant operations, but it's a less rent? And also looking at your whole portfolio, we think that in the future, the buying behavior is much more -- will be much more based on the experience. So this experienced operations, will they pay less than your combination of field cooperation? And could this be a good trade-off for tenants that would pay a little less because they provide better experience than of your conventional ones?

A - Ruy Kameyama {BIO 16672412 <GO>}

Good morning, Andrea, thank you for your question. About the Tijuca mall, we didn't have anything special particularly, we made some important changes. We're now qualifying the mall. And in the first quarter, coincidentally, some important brands have joined and this had an impact on the rates and also CDU when we compare with the previous year. So this is much more the reason, we don't expect to have this increased performance in the upcoming quarter, this was concentrated in the first quarter of the year. But in regard to the experience and how could -- this could impact the rent, it's hard to tell today. We know that this is the future of retail.

And certainly, all retailers are trying to offer a better and better store experience to consumers and a non-omnichannel because visitation for banks takes place at the physical store, but they purchase online. So it's very important to have physical presence because the physical presence itself will help you sell on your website. But what is the impact expected for the coming years? It's hard to tell. Since in the last quarter, the recession was very deep, very strong, it's hard to tell how much of it is related with lack of experience or the macro effects. We think it's much more related to the macroeconomic effects than the experience issue. I think our malls are very well positioned in terms of restaurant mix. Restaurants are among our Top 3 greatest weights in our mix. Services is also in our top three mixes. So this is a nice characteristic of Brazilian malls when we compare with the U.S. or other countries.

The offer of restaurants and movie theaters and games, it's very good in Brazil. So we don't expect to see such a big impact as things are added to this situation. We think it will be much more marginal. But for other countries, other countries will have to do much more in terms of adding restaurants, in terms of adding movie theaters, of adding large game stores. So in this case in other countries they will see a greater impact. But it's not the case of the malls in Brazil. Most of the malls in Brazil, already have a good mix.

So experience in our traditional retailers will not have a big impact, but we don't know how this will behave. We believe that in any case scenario, retailers will still have physical stores in the best malls in Brazil. And we want to be in this sweet spot, and we want to help them perform in omnichannels via ship from store.

Q - Unidentified Participant

Thank you.

Operator

The next question is from Nicole Inui, Bank of America.

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning and thank you for the call. I have a question. Could you tell us, a little bit more about the retrofitting projects? What you have done so far? And what you're planning to complete before the end of the year? What are your greatest focus is? Which malls? And how much you pretend to invest this year?

A - Ruy Kameyama {BIO 16672412 <GO>}

Good morning, Nicole, thank you for your question. The retrofits are advancing according to the predefined schedule for this year in most of the malls. One of the first things we focus on was the parking spaces. Our surveys show that parking spaces and NPS were the first focus of our retrofit efforts, so this was a starting point. And it is the entrance and the exit door for most of our customers, so we wanted to feel offer a better experience. And this is very advanced in many of the malls, NorteShopping, Plaza Niteroi. We also started the retrofit of the parking space in Villa-Lobos. So we're advancing according to the plan.

The most advanced mall is NorteShopping. There, we're at a very advanced level in terms of guardrails and floors and escalators. We're also going to change the restaurants and movies area. So we are at a good pace according to the schedule. Last year, we spent more time in projects, and this year next year, we're going to accelerate the construction work, the retrofit works. This is how we're treating these projects. In the first wave, we are starting stronger in five malls that are already being retrofit this year. And we already have five more projects for five more malls. So we're executing this in two ways. And this is the first year that we're actually accelerating the works in this first wave. So this is the current state of things.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you.

Operator

The next question is by Marcelo Motta of JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. Can you talk a little bit about the leverage, level of the company, any opportunities for growth? Is your leverage dropping? You did the liability management, so what do you expect in terms of growth? So do you think it will make more sense to -- what do you think that -- maybe greenfield projects?

A - Ruy Kameyama {BIO 16672412 <GO>}

Hello, Marcelo, good morning. Thank you for the questions. Yes, we do have a balance today that it's helping us in two ways. First, this flexibility that we're having now to be able to work with our debt, indebtedness profile and increase our exposure to CDI and decrease our exposure to TR. We were more cautious until we were certain that we'll -- we had a positive outlook in terms of the economy of the country. But now that it is clearer, we are gradually increasing our exposure to CDI.

And as I said, this happened in the -- in quarter four, quarter one, and now in quarter two, we are further decreasing TR, increasing CDI. So we see today, it's even closer to what we think is the ideal for the company in coming years. So as the macroeconomic scenario becomes more clearer, we take further steps. We're being cautious in terms of our debt profile. There is an upside and it also protects us at the same time when we have a more unstable economic scenario. And this change in balance also gives us the possibility of thinking of new investment opportunities, investment alternatives.

As you said, greenfield, greenfield is not a priority at this moment. We think it is a possible growth vector in the long-term. But when we look at the retailers' appetite itself, they're still very skeptical about the opening of greenfields to us. That's why we're being more cautious with greenfield projects. And in terms of capital allocation, the alternatives are increases in current stakes and potential acquisitions of tier 1 and tier 2 malls, expansions are also in our radar. And we have been working on two or three extension projects more eagerly. But our strategies to increase our exposure to tier 1 and 2, provided they have appropriate value generation to our shareholders. If we don't find tier 1, tier 2 assets that bring appropriate return to our shareholders, we will be happy to return more capital to them.

We highlighted how much we'd return to them via our share repurchase or the dividends or the interest of the net equity and we have a balance today that allows for this opportunity. If we find good tier 1 and tier 2 opportunities, we will acquire them. It could be a good capital allocation in the macro scenario. But if they're not available, these assets are not available or if we are not certain about the macroeconomic scenario, we can accelerate the return on investment to our shareholders.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Marcelo.

Operator

(Operator Instructions) Our next question comes from Mr. Tito Labarta with Goldman Sachs. You may proceed.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, thank you for the call. Just a couple of questions. I guess on the same-store sales -- the growth was a bit weaker than the peers. And you mentioned that some regions was a bit stronger. But just wondering if, you know maybe while the retailers [ph] maybe some the regions that you're in. And if could you maybe give a little bit more color on that. And then following up on that in terms of same-store rents, the growth that you're seeing now, above 5%, do you think that's sustainable? Can they go up from here? What do you think about the growth in same store rent going forward? Thank you.

A - Frederico Villa {BIO 18677215 <GO>}

Hi, Tito, thank you for the questions. Regarding same-store sales, we think it's not that different when you compared to peers. We were at 1.5%, our peers were close to 2% or 2.5%. So we think everybody is more or less under same ballpark figure. Every quarter, we'd see a slight changes in one or our other companies. But we think that this confirms that the general market is even more or less were -- is still not hot market in terms of same-store sales growth. But as I mentioned, I think in our case we focus a lot also on total sales because we're shifting the portfolio, so that our total sales grew almost 7%. So that means that a lot of the new brands that we brought to the mall are performing much better than the previous one. So that's another figure that we look at very closely.

And with regards to the same-store rent, so our growth of 5.7% was slightly higher than the average inflation that we have for the period. That means that we had a positive real growth, but at the same time, that last of the figure came from the passthrough of inflation. That was a question that a lot of investors had, whether we would be able to do the passthrough of this pick up of the inflation. And I think that, this quarter, we showed that we are -- we have been able to do that. And on the top of that, a slight positive step-up, real step-up.

And naturally, I think that this also reflects the better scenario of discounts. We're gradually removing the discounts that we have granted throughout the recession. So that provides another improvement that we expect to help us in the next quarters. All in, we believe that it depends on how the inflation will behave in the next quarters, but we think that, that's the level that we're pursuing.

A gradual improvement in terms of (inaudible) spread, a gradual removal of the discounts and the inflation passthrough. That's how we see same store rent. And on the top of that, naturally there is always the percentage rent that in this quarter didn't help much because of the weaker sales and the Easter effect. But on the next quarters, depending on the performance of the same-store sales and the -- and of the new tenants, that can also help the overall total rent.

Q - Tito Labarta {BIO 20837559 <GO>}

Thank you, that's very helpful. Maybe just one quick follow-up. You did mention in the press release that the Midwest you saw very strong growth. Just kind of curious if you can maybe give some more color on some of the regions that are not performing as well?

A - Frederico Villa {BIO 18677215 <GO>}

Sure, Tito. So yes, the (inaudible) when we think of Goiania, Mato Grosso, Mato Grosso do Sul,. and also Mato Grosso which was the latest to execute greenfield that open the end of last year. Those are regions that are doing very well in Brazil and that have been doing throughout the recession, those regions, they're benefiting a lot from the agri business improvement, those regions invested a lot in terms of efficiency of their farm then of the general business that they're running.

And we see that over the past three years, those three states outperformed the average that we see in Brazil. So we're happy because we have exposure both to Goias, but also there we have an important mall, the dominant, biggest mall, (inaudible) one of our Top 10 malls in Campo Grande which is in Metro Santa Cruz and all we have there is Estacao Cuiaba [ph] which in the first quarter already have steered we have -- within our Top 25 malls. So that's the region of our deal and that is doing very well. And on the flip side, we have regions that are taking a little longer to pick up. As everybody knows Rio de Janeiro state is one of that, that suffer a lot with both the fiscal situation but also the oil prices, they're doing of couple last year. So the good news is that the oil industry and the oil prices, especially with the concessions that the public government is planning to do. I think this is something that will help the state of Rio de Janeiro in the next few years. But still the fiscal situation of the state is a delicate one. So we have to see how this is going to behave. But we think that's overall situation for Rio, the worse has been left behind and we expect also a gradual improvement in the next quarters.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay, great. Thank you very much.

A - Frederico Villa {BIO 18677215 <GO>}

Thank you.

Operator

The next question is from Mr. Renan Manda, Santander.

Q - Renan Manda {BIO 20347216 <GO>}

I have two questions. First, about the decrease in building costs. Was it due to the end of the period the terms established? Or did tenants go over the minimum threshold so that the operating has been lapsed to lend this amount. So I'd like to understand what we can expect looking forward? And the second question is about Villa-Lobos, the Villa-Lobos mall. Now that they have fixed the bridge close to the mall, did you see an improvement in performance after the bridge was fixed, after things went back to normal in the region?

A - Ruy Kameyama {BIO 16672412 <GO>}

Good morning, Renan, thank you for your question. About the building cost, we had a year-over-year improvement of 6.9%. And there is in fact, reflects as we started to trade some of these contracts in the first month, we as entrepreneurs were subsidizing the building fees of some of our new tenants. This was done in some focal situations, some specific situations. And then as time went by, this subsidy stopped and the fees would now be covered by the tenant directly. So the improvement in this quarter was due to these specific contract -- while after these terms ended. Now we don't have to pay the fees anymore. And what we expect to the coming quarters, we'll see a gradual improvement, either because we're going to have lower and lower vacancies or we come in some cases we will be able to change specific commercial conditions regarding the building -- the fees paid by the tenants. About the bridge close to Villa-Lobos, it's had a huge impact on the traffic in the city of Sao Paulo and, consequently, of course, it's hindered access both in terms of the entrance and exit of the shopping mall. And now after the bridge was fixed, we've already seen an improvement in the traffic and in our sales. So we expect to see a gradual improvement, further improvement gradually.

The impacts when the bridge broke down -- the impact was immediate. But now we're not going to see the recovery immediately because it took a long time and some consumers changed their habit. And it will take them some weeks or even a few months before they resume their previous habits. But we're going to see a return to the pre-accident levels.

Q - Renan Manda {BIO 20347216 <GO>}

All right. Thank you.

Operator

We have no further questions. So now, I'll pass it back over to Mr. Ruy for his final remarks.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for participating in our conference call. Me, Fred and Derek and the entire team, we are at your service if you need further clarifications. Have a great day.

Operator

This conference call is now closed. Thank you for participating. Have a great afternoon.