Y 2018 Earnings Call

Company Participants

- BRML
- Ruy Kameyama, CEO
- Unidentified Speaker

Other Participants

- Analyst
- Andre Mazini
- Jorel Guilloty
- Luis Stacchini
- Nicole Inui

Presentation

Operator

Ladies and gentlemen, thank you standing by, welcome everyone to the BR Malls Conference Call, to discuss the results related to Q4, 2018. To present the results, and Mr.Ruy Kameyama, Mr.Frederico Villa and Mr.Derek Tang.

All participants will be connected in the listen only-mode during the company's remarks. After that we'll start an Q&A session and further instructions will be provided. (Operator Instructions) We'd like to say that forward-looking statement made during the conference call concern the company's business outlook, operating financial goals and forecast are based on beliefs and assumption on the part of BR Malls Management and also on information currently available.

Forward looking statements are no guarantee of performance, they involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not materialize. I would like now turn the conference over to Mr.Kameyama. Please Mr.Kameyama, you have the floor.

Ruy Kameyama {BIO 16672412 <GO>}

Good morning, everyone. Thank you for participating in our conference call to discuss results 2018 fourth quarter. We'd like to talk to start by addressing the highlights of the fourth quarter, and then we'll go to the Q&A.

On slide number 2 was showed that, we have several challenges in 2018. By challenging (inaudible), the in-typical events such as the truckers' drivers [ph] strike, the elections, that enclosed year toward high exception in conserve important structure on (inaudible) for BR Mall the year was important then the revolutions we need some significant steps in strengthening our portfolio, we grew our operating status and also added liabilitiy management efforts, since strengthened the company's capital structure and the graph showing the advantage in different financial metrics.

2018 was also an evolution year for our culture, which we (inaudible) the company more client [ph] on the end to need the long run. Progression is also been a very relevant topic for the company.

On slide number 3, We shared, a picture the evolution of the company is going back to 2017, new relationship is strengthening our mark on further, such as (inaudible) we decided to decrease our exposure to non-core assets, smaller malls and smaller cities, where we do not have active management . About the (inaudible) increase our exposure in core access, for access.

Acquiring larger mall and the larger cities, where we do have a more access and management over those assets. We saw steady increase in 7 malls in an acquired from other three malls. And we opened the 11th of (inaudible) of the company feedback [ph] clear by, so we closed the year with 36% above , NOI exposed to access plus aside us [ph] Tier 1, our QS compared the 76% in cash so that we have in the same category in 2013, we believe that (inaudible) projects in our ten malls would bring improvements in our performance for the convient. In 2018 we also spread our (inaudible) activity more adjustment activities in 2019, we're also at brand, our work. (inaudible).

Now moving on to slide number 4 I'll show a little bit about our (inaudible) expectations that positive we had big tree days since part of the mall and we'll see a trend of have a important anchor stores. Food court performed really well, and we've good and important opening progress for indicating (inaudible0 in Coco Bambu giving in -- the (inaudible) of the second best opening in there (inaudible) bounce for the cinema complex brad looks safe for is born as the strongest momentum to religion it's so able to generate opportunity in areas that we have, opportunities such as the Midwest and (inaudible). Which is consider to the company's long term performance.

And slide number 5. We shown wide or demand shares on expectations for operating results are even more favorable, on top of a macroeconomic recovery after the recession we realize that refresh in (inaudible) open in brazil and the same time we realize an important raising demand from (inaudible), either through expansion of our existing brands or by newer brand, we also believe that the demand supply we have would be more balanced, through an increase of the occupancy rate and a recovery of the leasing spread.

On slide number 6, we're sure the recovery of operating indicators , in the fourth quarter in June, 7.7% in total sales excluding the (inaudible) sold and in terms to our (inaudible) grew by 3.7%, up 2.1% than compared to the forth quarter of 2017. That growth is associated with good pace of sale in the retail there, and improvements in our tenant mix. Its important to mention that our regain prevented or also the growth in same-store sales with the highlight for the Midwest region which grew by 7.7%.

The increase in sales in the past quarter are guaranteed higher percentage of (inaudible) inflationary introduction and discounts which is close to our historical average. With that, that indicator has the recovery having filed a well above 4.1% , up 3.2% when compare to the previous year.

On slide number 7, we show how the execution of service of (inaudible) relevant efficiency (inaudible) business , with upgrading concepts of mix and better performance. It material conference collection, a lot of (inaudible) second lower (inaudible) massive (inaudible) of the company future 0.5%. Gross delinquency also showed in good length and 3.2% or 2.5% below fourth quarter of last year.

Delinquency at lower levels as contributed to lower provision in this quarter bad debt provisions fade at 14 million or 4% of net revenues year-to-date the drop was 77.1% moving from BRL105 [ph] million to BRL42 million . The execution of this strategy also allow the company to obtain throughout the year, a recover in terms of occupancy rate which reached 96.7% .

On slide number 8, it is an our NOI for the quarter, which move from minus 0.8% excluding the sold malls and totaled BRL317 million. The profit of replacement and defaulting tenants exerted some pressure on leasing amounts and not to analyze but would an healthy portfolio, the better mix coming on, mix due to the proxy for cash in relation sorry expect growth in the quarter. On the right hand side we see (inaudible) the evolution of NOI ex-sales for the past two years. We've been lower delinquency and a higher cost (inaudible) level from the tenants. We're confident that will follow now to recover pass on slide number 9. We have this adjusted EBITDA with solid growth of 6% which during the launch of (inaudible) which is the level of 235 million we're also the quarter. The main contribution further improvement was introduction of bad debt provision as mentioned. EBITDA margin adjusted growth of 66.8% up 4.1% and compared to previous year. In this quarter, we have an increase in SG&A which was impacted by non-recurring (inaudible) coming from the fourth quarter of previous year and this year. 2017 and '18, haven't you do with reversals and structure reinforcement and sliding it again we've see the company's capital structure. We close the fourth quarter with a cash position of 935 million in a gross debt of 2.8 billion, a drop of 16.2% when compared to the previous year.

So the net debt at end of the quarter was 1.9 billion, which maintain the net debt EBITDA ratio at 2 times the lowest in the industry. The average cost for EBITDA drop from 9.2% in the fourth quarter 2017, to 8.8% due to liability management actions which reduce the cost of our debt in PR by 0.9 percentage points.

Looking ahead liability remains (inaudible) along will the change in our back [ph] profile any more efficient portfolio management increase our capacity to the long run , which was proved by the receiver of the AAA rating from since the first time in the company's future, looking forward they defined our actual scenario, we have more opportunities going forward the issuance of ventures a 170% of CBI March this year and that's the refinancing of our TR90 [ph]debt, which includes the lowest level in few years. Our PR debt today at mount for 59% of our debt. But that profile is changing when going forward.

Now moving on to slide 11, growth of the 75% we know AFFO in the quarter and it stands 36% year to date numbers reaching the level of 168 million in the quarter and 581 million people use the largest AAFO in the company's history even after the sales and assets. The combination of it better, provision and liability management's efforts allowed for that growth. About this metrics AFFO the name metrics for value creation for shareholders, we grew 32% in the quarter, 31% in the year, reaching a total amount of 0.68 or BRL0.68 per share year-to-date.

Looking down to slide number 12, we present the evolution of our culture, (inaudible) created our sense of purpose which is to transform shopping malls, investigations of happiness and opportunities. And we'll update you our values, so that you can reinforce long-term and clients. Those changes were planned well thought out and were key for the along with a how much is the company and have received promising feedback from our clients, tenants, consumers and associates of employees and to change in have I think the highest satisfaction level measured by NPS and the best semester and worker turnover. Its important to highlights effort and time dedicated to digital information to include new member to our board with a strong background in innovation technology. And this topic has been strategic importance of final decades to develop new solutions to improve consumers and tenants journey. And partnership in Cubo and the delver [ph] center have been great steps towards that goal.

On slide 13, we have our focus for the coming years. We continue to work and strengthen our portfolio to make them even more desirable by kind of consumers will keep the robustness of our balance sheet and at the same time maintain our flexibility to repair our more capital to our shareholders we continue to advance in transforming digitally and we reinforce the long-term culture and excellence in people. We now close our presentation. And we will be available for questions or comments you may have. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you we will now start the Q&A session. (Operator Instructions) Our first question comes from (inaudible).

Q - Analyst

Good morning, thank you for taking my question, have two questions actually. The first one if we could go back to the name asset top 25 if you let me look at efforts in real, problems there are, more chopping to relevant drops in NOI in the fourth quarter when compared to the fourth quarter wit the previous year, you have some more color the reasons why that happened she is of course that the economic scenario and we will is not very helpful but what can you expect going forward? Next replacement, what can you expect in terms of NOI for 2019. The mix (inaudible) and other facts that impact those assets and that impacts the company's top-line.

Number two, if you could talk about the G&A, some more and saw a growth, year-over-year in G&A and you mentioned that you have brought in new people also. I'd like to understand what's your G&A pause how much of that G&A would be recurring for 2019, are you expecting to bring in more people we should, and for PRL if you could (inaudible) PLR, if you could give us some more color for that (inaudible) trucking on convention? thank you.

A - Unidentified Speaker

Hi Enrico thank you for the questions. About your first performance of our main asset. So specifically, we had an important change in mix. We have a portfolio of delinquency which was quite high for the past two years, we have replaced several of those delinquents, tenants had significant change on that front, new stores, new tenant and at the same time that let in and short term pressure on our rent and leases, the level of new leases gain a because of the economics scenario's which could you begin your tenants and there's uncertain scenario that we had. So that as I said, pressure power leasing rate. So that's why this line grew less and the other end of the day these was a deliberate decision that we took, because we wanted to grow the bottom out of this asset, not on there NOI, but the cash conversion , cash generation as well so we decided to remove the tenants and bring in better performance tenant even if that would we can see lower lease rates we compared to (inaudible) NOI we see that (inaudible) but when we compare NOI with the bad debt provision for the three assets between group growing double digits, NOI -- bad debt provisions which proves us that this was the right decision to take the replacement of those tenant when we look at those metrics. We have better indicator (inaudible) cash flow NOI Looking forward, we expect to have some stabilization, we think that the improvements will come gradually, that's the scenario we hope to see in their long or in the short term. About G&A, we've had some times in the quarter as you mentioned brought in new people more expenses and wages and compared to the previous year that amounted to 4 million difference 3 million, above 4 million (inaudible) to the internalization of some businesses and back office expenses, but we had we offset that number by revenues. So we brought in revenues 3 million than started generating expenses of new personnel at (inaudible) but that's more, a more transparent way of showing that number. That's for PLR in the fourth quarter of 2017 fourth quarter of the previous year we have a reversal and adjustment because you leave the reimbursed part of BLA are PLR, that didn't happen 2018 so on the comparative basis we saw an increase which was more significant in terms of structure remains an adjustment throughout the past quarters, increase our team especially much relates to RETROFITS activities that expansion has been made. So looking forward we do not expect the increases in terms of expansion of its substructures still under G&A we have a non-recurrent events our new contingent expensing the fourth quarter that amounted to about 7 million and at the same time the fourth quarter for 2017 we had a contingency reversal of also 7 million of non-related topics of different nature, but in practice the comparative basis we see the (inaudible) decrease.

So I saw an increase in the recurring expenses, we have some long-term expenses in the long run looking forward you can expect to have those events as recurrent. So now we're walking around the bases which better reflects what we can expect. So the fourth quarter '18 have better base, for comparison because we had one of those non-recurring event. That is your ongoing structure going forward.

Q - Analyst

Okay, great. Thank you, you have a nice day!

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

Next question from the (inaudible) from JP Morgan . You may carry on.

Q - Analyst

Thank you good question. First one, the optimization of investment portfolio for the first call you mentioned (inaudible) now quantify your portfolio going forward, any other of those non-core assets or EBITDA for sale or not and the second question on the operation up front we see through considerable improvement, leasing spread. Could you also give us some more color on the current situation? Is there be fast periods in the leasing spread/ Thank you.

A - Unidentified Speaker

Hi, (inaudible). Thank you for your questions. About the first question about the portfolio in long run . We are now shaping our portfolio scoping if you will. Our portfolio meaning, that we have been passing out relocating Capital in different part of the portfolio. We have been decreasing exposure to certain assets, while we don't have a more active management activities. They are relatively small (inaudible) will sort you don't think it makes sense to allocate that they'll all energy on those assets and leave them at the hands of other investors others will see more value than we do . So we're going through an active process, now you can recycling that portfolio at the same time also say that this maintain our scale , our liquidity, our robustness because those assets account for less than 10%. So (inaudible) occupancy volume EBITDA through a quantification less than 10% of NOI So not that much of a burden with companies NOI, that they will free up energy, free up focus that will be important for us to dedicate to our main assets. That's what our main assets and when I say you're scoping, I was helping our portfolio that's what you're doing you're trying improve those assets and some places we are having retrofitting activities, expansion activities geared towards those main asset, that's part of our model and now the strong balance sheet that option became a reality is more attractive reality for the company about your second question about the leasing spread and discount. Discount have been dropping, we were close to about 3% before now we're getting close to 5% quarter-to-quarter we see an Improvement on that truck we haven't reached the level, we had three recession but we have been involved in towards that quarter-on-quarter. The same goes for the leasing spread, if you scratch or negative during the recession they have been proven as we move along, and we expect them to improve even further as we move forward that's not a quick in fact when we look at our main malls with an occupancy raised close to 97% of our top 20 and close to 98%. And then we look at the dynamics with our planet. We'll see that tenants are behaving differently. A year ago, they were looking for discount or closing down the stores now the feeling the climate is different you probably know that the main retail chains are expanding their portfolio of new brands have been launched investment funds such as (inaudible) wants the going back to invest in retail, tenants getting ready to a new round of IPOs and so on, for the supply demand dynamics, it's much more favorable right now, so looking forward I think we are confident that there is a trend both of our discounts mutual (inaudible) she's trusted some improvement not because of the macroeconomics sale and their employment opportunities is low inflations but I'll be back but also get supply and demand dynamics. As I said, that dynamics would be much more favorable to shopping malls. We have no growth visible areas being open going forward. So an increase in demand is lower, supply will be favorable in terms of discounts, occupancy rate and leasing spread.

Okay. Thank you, have a nice day.

Q - Analyst

Thank you.

A - Unidentified Speaker

Next question Luis Stacchini from Credit Suisse.

Good morning Luis

Q - Luis Stacchini {BIO 18717891 <GO>}

Thank you I have two questions. The first one you mentioned that (inaudible) you cut up to discuss the issue of (inaudible) first quarter, to square meter leads for square meter dropping by 4% of course we had some non-recurring rents (inaudible) non-GAAP but I'm still under the impression that the replacement of tenants has not had any possibly front, yeah so how do you finish lease level of the company on average. These (inaudible) see a need for more turnover with leases still going down how much longer do you think that dynamics will last of lower leasing rates. Also, we saw that there was a negative contribution, does that figure represents an (inaudible) loss of the delivery centers -- or is it more of a cash bond related to the state pension having an assets or something to do with mark to market and what can you expect in terms of contribution for 2019 so that specific line? Thank you.

A - Unidentified Speaker

Luis thank you for the questions, about the rent lease per square meter versus same-store sales in this quarter specifically some new facts which drives the numbers down which strength from stuff found for bar we need to greenfield and being a greenfield it has a lower lease rate level and we also had a (inaudible) fact what happened because the lease in December is doubled as an amount for a mall. But at the same time, we try to linearize that throughout finance. Because, it was open in late October. December had a higher wage in their in fact under-stores and led to a negative effects and it started at a lower level. We also had the opening of the new or new anchor stores and new anchor store of course bring the leasing rates down. And of course, you also had the effect coming from real leasing spread. So all of that brought the minimum rent per square meter down for different companies. Looking forward, how do you see that dynamics laying out, on the one hand if you sends for rent accelerating from the third to the fourth we saw some acceleration and for the first quarter we see good signs already January and February from the same-store rank so we think we are following the right path going forward and at the same time when we look at the future leasing spreads when you look at the (inaudible) of occupancy for the company's is move. It's meant through a correction through a an adjustment, the level we are now is quite healthy, because of occupation, closed a quarter at 10% in 2017 it was 7.3% and (inaudible) 16 plus 10.7 so we're getting closer to a healthier level and when we look at the sales performance and delinquency level at much better metrics than before but we assure that in terms of adjustments for mortality rate will decrease is expect the economy to improve, and about a not be quick level. So looking forward we expect to see improvement both in same store rent and also new leases and with improvement (inaudible) as well as for the equity pickup France, it has to do with the delivery center, know what irrelevant France store at play. If you have an initial cash bonus but it's the case with most startups, the ramp up phrase, we do have cash bar and we're trying to maintain a good level of quality with the first stops. So we have -- which is five (inaudible) and we have to be going through the equity pickup and they'll depend on future of capital raised or debt violation, and on the stabilization phase for ramp-up, it's difficult for us to force you back now but those are the main facts that will define the behavior of debt asset in the future. Okay thank you.

Q - Analyst

Just in follow-up, concerning that mortality rates that you mentioned you got my attention that grows delinquencies haven't drop year-on-year from 9% to 6.1% when you changed your mix at 7% so it didn't drop further because it was place tenants were not delinquent or if you have some delinquency level you've been created between the portfolio. So the growth of delinquency has been dropping, it has dropped significantly when compared to the previous year to also use of different criteria for the money coming in is allocated with previous tenants when we have tenants who have the capacity to pay but they have an outstanding loan. That invoice is allocated to the previous month. So it is helping towards in terms of liquidity but higher the month behind and when we ship to invoices then we change that. And after four months, that same tenant was recovered at you that, we saw a math recovery and full steam but not so much for the gross recovery, their thing part of approve of me going to give me though they're (inaudible) invoices and there full amount, so when we look at the max delinquency rate which is quite important for the company's help, the portfolios help we see that number 4% in a good try and so we do (inaudible) going the right direction so in a few quarters will be bringing that number down that number relative to grow delinquency. So when you see the number 6% that does not mean that the portfolio has a problem, I'd like to look at the issue from the next delinquency standpoint.

For this quarter, something that stood out was the these delinquencies for coming from the bookstore industry and that's specific issue for debt factor the library, the bookstore factor which is quite different than the dynamics some of the other industries, other factors. Okay, thank you and you have a nice day.

Operator

Next question from (inaudible) from (inaudible)

Q - Analyst

Good morning. Two questions about occupancy you mentioned that, strong total sales level and you mentioned the revenue dynamics, mentioned the new tenants coming in at lower lease levels in accounting terms, and the question is looking for to do, how are you going to extract revenue from that in the following sense. I'm talking about those new store coming which are selling, well do you have any kind of ramp-up symptoms of contracts makes the performance or we have to wait for the third year to start seeing those end up going up, so how does that dynamic play out, how we're going to extract revenue from those stores, what's the timeline for that and the second question is the competitive environment, that have been mentioning that we see that two important things for you to (inaudible), have been targeted by great or big players that there's a (inaudible), would you got shopping malls an example. So two questions what's the status for the (inaudible) tenants (inaudible) the internal approval practices and what are your expectations from about that and the second question about the competitive environment as a home and what you expect in terms of new entrants vote for (inaudible) and for (inaudible). Big players are interested in those areas. How can you see that, how can you defend the company from that, how do you expect those new projects to clear lines those two regions/

A - Unidentified Speaker

(inaudible), thank you for the questions, about the cost of occupancy I said as I mentioned, the level of 10% [ph] better than the third quarter 2017, 2016. So networks are healthier now, which allows us on the one hand to capture more advantages, but the minimum lease as I mentioned we (inaudible). But on the other hand, we have a better potential for percentage rent we saw improvement in debt metric, that metric and at the same time we see that (inaudible) we have a lower level for the first year which reflects the economic momentum but most of those contracts also grew real growth throughout the life of the contract. So throughout time we be able to see improvement in terms of occupancy costs. So we think that in times improvement there are low pressures on that front. And when we see that the house level that you hear, that are much more comfortable (inaudible) delinquency and they found a few that this is has a whole tends to become more stable. So the strength, in the long run, we still have leasing rates following up on sales level, so we can have an expectation of better sales, we have a long term expectations of better leasing rates as well. As for the context of environment you guys mentioned there are -- those are very important areas (inaudible) for any tenant, any retailer in those area. From both our areas that are very attractive, it's been difficult for tenants to invest significant groups in those areas. Because the low availability of area, with great liberal difficulties in terms of authorization and (inaudible). So that's of course you made their lives more difficult even from open new stores, still we are always looking for a new opportunity coming from do identify opportunity that generate good returns, good same synergies, which might be the case for the (inaudible) there mentioned, you looking to it, for we saw, we are now but we are now analyzing the possibility of building a mall along with the club the (inaudible), we're looking into that, we are being very cautious the idea is to me interest the club members of course, but right now we cannot anticipate any more than that. So just a follow-up speaking about the tenants club.

The tenants club we have to approve that. Do you have any idea where that stands, you have a timeline that would be the next step inside the club , the tenants club? no, no I have nothing to comment at this point what I can tell you that we're taking very gradual and cautious steps the (inaudible) and this will happen in the right time. We acknowledge the importance of the tenants club, since very important grab for the same store we need to be very careful, very cautious to be these (inaudible) that all the correct steps have been taken. Okay thank you.

Q - Analyst

Well, thank you.

Operator

Our next question comes from Andre Mazini from Citibank.

Q - Andre Mazini {BIO 20818108 <GO>}

Good morning. Thank you for the call. My question is about the core assets . What do you consider the core assets in terms of size, population find, mall size, but would you consider a core asset . What would be the minimum size of a mall to be considered a core effort. And as for acquisition. What kind of portfolio are you looking to going forward on that front?

A - Unidentified Speaker

Talking about a possible New York acquisition of portfolio, graph sound is not very good but we haven't been a metrics that's been used for the size of the city. We do not will call you at the population size, we also look at the environmental or the environ of the cities (inaudible) competition, is amount will be attractive enough to bring in people from around the cities from the larger metropolitan area. And of course you also try to identify relevant competition so there is no magic number it could offline to determine, we look at it on a case-by-case basis to look also in income levels 200,000 people should be the higher income level is quite different from interior of the same size with a lower average income , so those are the main variables.

The number of people of the population in the city in the metropolitan area and per capital income on average for the region and for the city. As for your second question about the portfolio. We are looking at portfolios, and this was the case for (inaudible). We have this part dividend within few malls which proved to be adequate and others which were not in that we sold that's one of our collective effects. We are very proactive both in terms of acquiring and in terms of sell enough, but it gives us a good flexibilities. We look at portfolio that perhaps two other players who did not seem to be the interesting. And because of turn around possibilities or other reason but now I see some of those opportunities that's more interesting. Our companies in Brazil do have good assets and also -- they also hold assets that they -- that can be sold in time, so too difficult to find portfolio that only include core assets. Most portfolios do include core and non-core assets. So should we find opportunities, where we mainly have core assets, with one or two non-core assets the strategy would be to absorb what score and right after that we would look into reducing the exposure of the non-core portion of such portfolio.

Q - Andre Mazini {BIO 20818108 <GO>}

Okay, thank you .

A - Unidentified Speaker

Thank you.

Operator

Next question from Nicole Inui from Bank of America.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you. I have two questions. The first one. I'm not there on the Retrofits any activities. How much the returns of expanse these year. What loss would be focused first and are we also going to see Improvement and growth workable area, with that and also the delivery center. You could talk about the rollout of the delivery center from follow, you have a target for the end of the year. Just to have better understanding of the delivery center that's it? Thank you.

A - Unidentified Speaker

Hi Nicole, thank you for your questions. About the Retrofits our brand is to speed up. You get all like the (inaudible) and (inaudible) actually mentioned in the presentation. We of course want to keep a good faith at the NorteShopping which we founded last year and for the other ones I mentioned we went through a phase of Google's licensing and (inaudible) we should see that up this year. Our plan is to invest 400 million in five years, which leads us to an average of 80 million a year. Last year the number of (inaudible) below, 80 so for the next two years it should be slightly above that average and most of them does not create significant GLA. Approximately the same GLA will major expansions but in the larger picture we talk about this same GLA So, we have what we're doing is we're repurposing the same GLA transforming the existing GLA of stores and restaurants often times we have changed the nature of the GLA from outside areas to indoor areas playgrounds, so it's a changing the nature of the GLA rather than an increase in square meters, and -- delivery center question. We are quite satisfied the results (inaudible) and in terms of rollouts, they are now present in five of our malls and it started in Sao Paulo. In July we have five, this year 2019 we already are working with some molten from following the Metro, Santa Cruz, Villa Lobos. Last year the idea was to ensure and footprints in Rio for the deliver something that now in 2019 this footprint is now reaching Sao Paulo. So that's the plan for reducing risk for 2019

Q - Nicole Inui {BIO 17757166 <GO>}

Okay, thank you.

A - BRML

Thank you.

Operator

Next question, Jorel Guilloty, Morgan Stanley.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Good morning. I have two questions. The first about the tenant turnover. So it's above the historic average (inaudible) that suggests that the ways to with those events at a very fast pace. So where are you now, in your timelines and every place in tenants, and also do you expect to have (inaudible) negative spreads for new projects, already reflected in do anything right? Or they expect something different for 2019?

A - Unidentified Speaker

Hi Jorel, thank you for your question that's for the seventh turnover we expect that we are now going through a downward trend, you were at 7.6 percentage requirement, number was up higher before and that 7% level is higher than the historical average as you mentioned. Our perception is fallen. It's difficult to make a (inaudible) it also depends a lot on the tenants themselves, the recession was deep, intense and it lands due to high turnover. For example of our bookstores as I mentioned and to feel ongoing we've got that along by surprise and 2017 not many people could predict that bookstores would be facing such a big problem but that's what we saw and that's of course might leads to higher turnover for that industry that factory bookstores. But so the perception that we have is that we still have some turnover, but that trend is downwards, and how can you say that. Because we see that tenants are more confident. (inaudible) the new government, the expectations of lease covered economy they are trying to analyze, if it's worth a while staying we're know that it's believed to be more difficult for them to come back to the mall, if they do come back negotiations would be more difficult for them so in several occasions, we've see a will very strong will on the part of tenants, even among those who are facing economic difficulties in strong will to stay gambling on a better 2019 is even better in 2020, '21 but the worst is over, so retailers managed to survive throughout the recession, we can do the right time for them to leave that's the perception that we have in our conversations and it makes sense, it is a very rational approach to the situation. In terms of mortality we could (inaudible) assume by drop and that we hope that gradually to see lower turnover that has soft delinquency rates are down which we assure that installed basis if you will, it showing an healthier condition than before. That's what your second question, about your leasing (inaudible) flat to mid-rates, the answer is yes. We do believe that going forward. In fantasy [ph] a recovery of course it will also depend on their speed of the recovery -- of the market and that was of course it would depend on new leasing spread but the new installed benches were already reflects that but looking for it will depends on turnover and as I mentioned and also it'll depend on the speed that sales are recovered, thank you.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Thank you.

Operator

Our next question comes from Mr.(inaudible) with Goldman Sachs. You may proceed.

Q - Analyst

Hi, good morning and thanks for the call two questions about (inaudible) you have the cost of 34% [ph] is that being relative to low investment costs

could just curious if you can replicate their professors line or are you done with the investment activity, you can give a color exactly what I was related, and then second question comparative year there in the back [ph] we talked about maybe if we destroy the confidence further to beat even to remove an answer the last call that the lower cost and relate to higher cost [ph] how much did you, how much more could you (inaudible) finance cost [ph]. Thank you.

A - Unidentified Speaker

Could you repeat the questions, your voice was not very clear.

Q - Analyst

Sure. The first question (inaudible) 34% on the year, also mainly due to the investigate new digital initiatives. I'm just curious, do you expect to see more (inaudible) (inaudible) hello, can you hear me, hello.

A - Unidentified Speaker

(inaudible)

Q - Analyst

Okay. You are (inaudible) the first question was on the cost (inaudible) on the year so may be if you (inaudible) think you can make it for this week see more what exactly is related to happen we can color with the dimensions before. And then the second question is in terms of your leverage in the re balancing some of the exact (inaudible) to lower cost and (inaudible) could you dynamics cost going forward? Thanks.

A - Unidentified Speaker

To answer your second question and then presentation and after that repeats the first one, I understood as for the second question that it's regarding the refinancing efforts that we are doing how much we can still do, what our expectations. So what I can see here is that all on general terms, we believe that a we have maybe above 25% of our outstanding debts that we can fuel renegotiate with the banks to better terms, so in terms of their life inventory management we could say that maybe 34 or 75% of being done and we have about 25% to get those part of their for doing probe is 600 million and high in a venture that is now four (inaudible) this month. And with your needs to go for (inaudible) link that where is the (inaudible) that we're going to focus on the first half of the year but in general terms what you can expect is that the percentage of the facility exposure will increase, while PR should decrease and we will try hope to reduce the cost of the average debt and also to extend the duration of the outstanding loss[ph], some basic general terms were give specific guidance call on the percentage but it's (inaudible) try to reduce (inaudible) both producing scope and extending the duration , the objective (inaudible) for doing.

Q - Analyst

Thank you, that's helpful. My first question was related to the cost line which we have to 34% mainly connected due to (inaudible) any color and do you expect the some of these future (inaudible) (inaudible).

A - Unidentified Speaker

Okay. My (inaudible) question related to the order cost debt into 2017, the fourth quarter was 10.6 million, and operating increase to 14.2 million increase of 34% season. Mainly related to the digital media impairmentation or the digital screening (inaudible) model whereby we have to account for expenses on the leasing of those equivalents. And because this is a new process it's worth not fully reflected on the previous quarter. So we've got to certain optimization, during the fourth quarter of 2018 but looking forward, for the fourth quarter of last year, doesn't reflect what would be the own goal for an average quarter of the future. So looking ahead, this should formatted the third quarter operating it could be a better property of these costs on the NOI side.

Q - Analyst

Okay, that make sense. Thank you very much.

Operator

(Operator Instructions) . This concludes the conference call. I'll give the floor back over to the speaker for his final remarks.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you everyone, for participating in our conference call. Myself, Fred, (inaudible) our IR team, we remain available for other questions. Have a nice day everyone. Thank you.

Operator

BR Malls conference calls is now over. Thank you all for participating. And have a nice day, everyone.