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EDITED TRANSCRIPT

REG - Q4 2019 Regency Centers Corp Earnings Call

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Co. reported 4Q19 results.

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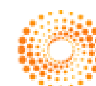

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PRESENTATION

Operator

Greetings, and welcome to the Regency Centers Corporation Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Laura Clark, Senior Vice President of Capital Markets. Please go ahead.

Laura Elizabeth Clark - *Regency Centers Corporation - SVP of Capital Markets*

Good morning, and welcome to Regency's Fourth Quarter 2019 Earnings Conference Call. Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Mac Chandler, Chief Investment Officer; Jim Thompson, Chief Operating Officer; and Chris Leavitt, SVP and Treasurer.

On today's call, we may discuss forward-looking statements. Such statements involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements. Please refer to our filings with the SEC, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements. We will also reference certain non-GAAP financial measures. We have provided a reconciliation of these measures to their comparable GAAP measures in our earnings release and financial supplement, which can be found on our Investor Relations website.

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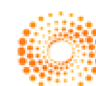

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Today, we will be utilizing a slide presentation for a portion of the call. You can view the slide presentation through the webcast link or in the presentation section of our Investor Relations website at regencycenters.com.

Lisa?

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Thanks, Laura. Good morning, everyone. I'll start with a recap of 2019 and a few thoughts on 2020 and the future outlook. Before Jim, Mac and Mike walk you through in much more detail.

Overall, in '19, we had a good year. Specifically, some of the key accomplishments from our talented team for the year were: grew core operating earnings per share by 4.3%, which exceeded the top end of our initial guidance from a year ago; we ended the year at 95% leased, this represents the seventh consecutive year at 95% or better; started over $250 million in development and redevelopment projects; completed several developments that are great adds to our portfolio, we made substantial progress on our in-process projects and we have clear visibility to our future pipeline; capitalized on unique acquisition opportunities, enhancing our portfolio quality through the additions of approximately $275 million of well-located, high-growth properties, most notably The Pruneyard, and these acquisitions were funded in part by the sale of more than $200 million of lower growth assets.

We further improved Regency's already impressive balance sheet, solidifying our funding needs through 2020. We demonstrated our continued commitment to best-in-class environmental, social and governance practices. The list of those accomplishments is way too long to list all here, but I'd like to highlight just a few. Earning the GRESB Green Star recognition for a fifth consecutive year, being recognized as one of the leading organizations in the country for top employee engagement scores, receiving the highest governance quality score from ISS; and finally, being recognized in Newsweek's inaugural America's Most Responsible Companies 2020 list as one of the 10 Most Responsible Companies in the real estate and housing sector.

While we're really proud of these accomplishments, we acknowledge that, disappointingly, we did not exceed expectations in 2019, both ours and yours, specifically for same-property NOI growth. As we've discussed, leasing velocity in the first half of last year as well as store closures and bankruptcies drove us to the lower end of our same-property NOI growth range. But it is really important to note that we finished the year strong with full year leasing volumes that met our original expectations.

Looking to the future, as we indicated last quarter, we expect flat to slightly positive same-property NOI and earnings growth for 2020. However, we do believe this muted growth is temporary as despite the unique challenges of 2020, Regency is operating in a reasonably favorable environment for higher quality neighborhood and community shopping centers. Better operators in many categories remain focused on the importance of physical locations that provide our customers with a combination of convenience, service, value and experience. This is supported by sustained healthy demand for our centers with a deep leasing pipeline. We believe that the 10th demand we are experiencing from better retailers, restaurants and service providers, together with the progress on our redevelopment pipeline, will translate into future NOI growth beyond 2020, in line with our strategic objectives.

The bottom line is that 2020 is below our standards on both an absolute and relative basis. But as I look to 2021 and beyond, I'm confident that we will soon be meeting our objectives of 3% plus same-property NOI growth and 4% plus earnings growth. Regency's quality portfolio, value-add asset management and development capabilities, strong balance sheet, an exceptional team, truly position us to achieve these objectives and return to performance that will again be among the sector leaders.

Jim?

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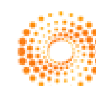

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James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

Thanks, Lisa. Same-property NOI growth for the fourth quarter was in line with our expectations, allowing us to finish the full year at 2.1%. Leasing ended the year with a very strong finish that met expectations for the full year. In fact, our Q4 new leasing production was the highest single quarter activity in the past 3 years. And we anticipate this positive leasing momentum to continue through 2020.

Our same-property portfolio was 95% leased, with shops at over 91%. While Regency maintains one of the highest shop occupancy levels in the sector, we did experience a decline of 30 basis points in Q4 driven by the expected move out of our remaining dressbarn locations. Our teams have been diligently working on backfilling these locations and currently have active negotiations or signed leases on all the recaptured spaces.

We achieved solid rent spreads of over 11% in the fourth quarter, which contribute to full year spreads of 8.5%. Importantly, this solid rent growth was on top of the average annual rent steps of over 2%. We achieved on more than 80% of leases we executed in 2019, even though we continue to experience healthy demand and deep leasing pipeline, weaker operators continue to struggle. In 2019, bankruptcies and store closures impacted same-property NOI growth by 80 basis points with Sears Kmart, accounting for roughly half of that result. We know the tenant failure has been and will always be a part of the retail business. And while it creates short-term disruptions to NOI, it allows us the opportunity to upgrade and refresh our merchandising quality and generate opportunities for us to unlock value.

In regards to our Barneys location in Manhattan, the tenant is still in possession of the space, but has given notice that they will be vacating at the end of this month. As previously noted, this bankruptcy will have an impact of approximately 40 basis points on our 2020 same-property NOI growth. Our team is focused on the plan that maximizes value as quickly as possible, whether it be selling the property, re-leasing the space or redeveloping the asset.

Moving to 2020. We anticipate a total same-property NOI impact up to 140 basis points from bankruptcies and store closures. This includes the a typical 60 bps from Barneys, IPIC and Sears, and up to an additional 80 basis points of known and unknown bankruptcy-related moveouts. Please also note that our bad debt is expected to remain in line with the past several years. While we realized store closures continued to earn a disproportionate number of headlines, we are excited to be working with thriving grocers and retailers around the country that are expanding in open-air shopping centers, including grocers, such as Publix, Wegmans, H.E.B. and Trader Joe's as well as an elevated number of retailers like Sephora, West Elm and Athleta. These prospering retailers recognize that our high-quality neighborhood and community centers provide what is critical for their success in today's retail landscape.

Mac?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Thanks, Jim. During the year, we started more than $250 million of value-add developments and redevelopments as we continue to make substantial progress towards meeting our strategic objective to start and complete $1.25 billion to $1.5 billion of projects over the next 5 years. During the fourth quarter, we completed 4 impressive ground up developments, including Ballard Blocks in Seattle, The Village at Riverstone in Houston, Pinecrest Place in Miami and Mellody Farm in suburban Chicago. These 4 projects speak to our development breadth and are a reflection of our talented professionals and unequaled platform. Returns on these projects are in line with projections. The centers are over 95% leased and tenants are performing well, with many exceeding their initial sales projections. For the full year, we completed approximately $230 million of developments and redevelopments at a stabilized yield in excess of 7%. Our major redevelopments are steadily advancing per plan, including our pipeline of future opportunities. I'd like to provide an update on several of these key projects.

Let's start with our office building redevelopment at Market Common in Arlington. This transformative project is more than 30% constructed as steel framing is complete. We have an executed lease with our luxury fitness operator to take 2 floors of the building and are negotiating with several users for many of the remaining spaces. We anticipate construction completion later this year with the first tenants opening in 2021.

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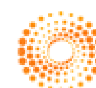

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Moving on to The Abbot located in the heart of Harvard Square in Cambridge. This project started in 2019. Construction is progressing smoothly, and we are approximately 20% complete. We have tremendous interest in our ground floor retail space and are working with a variety of users for the upper floors as well. We expect delivery late this year with the first tenants opening in 2021.

Next is our Serramonte Center located just 3.5 miles south of San Francisco. We are excited to announce in the fourth quarter, we started on the first of our 3 phase redevelopment. This first phase consists of the addition of a new Regal theater integrated with the insurer of the mall, a relocated fitness club, several new outparcel restaurants and a new hotel in a ground lease. The second phase of the project commenced in January and includes a long overdue modernization of the mall's interior that should complete prior to this year's holiday season and is already enhancing our leasing velocity. The third phase is the redevelopment of the JCPenney box, which we get back in June is arguably our best space. We are evaluating several scenarios to retenant and reconfigure the space, which is estimated to start in 2021. As we have discussed previously, approximately $1.5 million of NOI will be coming offline at Serramonte in 2020 as we execute this multi-Phase 3 development.

Moving to some of our near-term redevelopments. First, Westbard Square, formerly known as Westwood, located in Bethesda. We anticipate starting the first phase of this compelling mixed-use project later this year. As we've previously disclosed, approximately $1 million of NOI will be coming offline in 2020 and an additional $2 million in subsequent years as we demo a portion of the current center in order to relocate our grocer. The project will also include 100,000 square feet of retail, 200 apartments, 100 units of assisted living and approximately 100 for sale townhomes. We will be partnering and co-investing with several leading developers for the nonretail components of this project. The new Giant supermarket in Phase 1 retail should open in 2022, and the Phase 2 multifamily ground floor retail should follow in 2023.

Lastly, Costa Verde. This dense infill property is located in the vibrant UTC market of San Diego, across from Westfield UTC mall and a new trolley station opening in 2022. This mixed-use redevelopment will include new retail, office and hospitality, and we are in discussions to joint venture the endeavor with the best-in-class office REIT. We anticipate starting the project in 2021. Accordingly, as we prepare for demolition, approximately 1 million square -- $1 million of NOI is expected to come offline this year and an additional $3 million in 2021. Initial occupancy is projected to occur approximately 3 years after construction begins.

These are just a few of the exciting projects our teams intend to commence and deliver over the next several years that will support our long-term objective of 3% plus same-property NOI growth. Our 8 major redevelopment projects, both in process and near term, are expected to generate approximately 45 million of incremental NOI in the years to come, representing almost $1 billion of incremental capitalized value. I look forward to providing you with further updates as these projects advance.

Mike?

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Thanks, Mac, and good morning, everyone. I'd like to focus my comments on our 2020 outlook by walking through our same-property NOI and earnings guidance. I think the visuals will help with this discussion. So let's start on Slide 1, and I encourage those that can't follow the live presentation, its package on our website, as I'm sure you'll find the materials to be helpful. This first slide is a quick reminder of the components that make up our 3% plus same-property NOI, long-term growth objective. First, our embedded contractual rent increases continued to generate about 1.25% of growth annually.

Next, rental rate increases were another 75 to 100 basis points of growth comes from rent spreads in the mid to high single digits, which is consistent with our recent historical averages. And lastly, we need to consider changes in rent paying occupancy as this impacts base rent as well as recovery income, together with growth from our redevelopment activity, which has averaged a positive contribution of 75 basis points over the last several years. With that backdrop, I would like to walk through 2020 to better understand the outlook of flat to slightly positive same-property NOI growth that was previewed on our last call and confirmed with our formal guidance today.

Let's move to Slide 2, which outlines how growth is impacted by certain key assumptions this year. Contractual embedded rent steps and the contribution from rent spreads are in line with our long-term objectives. This leaves changes in rent paying occupancy and expectations around redevelopment contributions as the key drivers of our flat or better guidance. As we've discussed on past calls, rent paying occupancy is impacted

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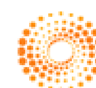

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by 3 key sets of assumptions: first, fallout from tenant bankruptcies or store closures; second, timing expectations around our redevelopment activity; and lastly, our downtime estimates embedded in our forecast due to the timing and volume of leasing activity.

First, from a bankruptcy perspective, we will certainly feel the impact of the unique material failures of Barneys, iPic and Sears. In addition, as we have in the past, we have included provisions for actual and potential bankruptcy activity to include tenants such as Dress Barn, Avenue and Pier 1 as well as other unknowns. In total, these could cause a decline in rent paying occupancy of approximately 75 basis points, which translates to the drag on same-property growth of up to 1.4%.

Next to redevelopment, as we have discussed on previous calls, we know that contributions to NOI growth can be uneven from year-to-year, especially given the size and character of our current projects. While we have been successful in completing projects and bringing incremental NOI online, at the same time, we are taking approximately $3.5 million of NOI offline in 2020, including at projects such as Serramonte and Westbard Square to position those projects for future growth and value creation. As a result, we are essentially projecting a net 0 contribution from redevelopment activity when you consider both the ins and the outs.

The final component of rent paying occupancy is related to the timing and volume of leasing activity. In 2020, outside of bankruptcy driven moveouts and redevelopments, we are planning for up to a 15 basis point decline in average rent paying occupancy caused by the timing of our leasing activity, both execution and on rent commencement, which translates into an approximate 30 basis point impact on growth. Lastly, we expect a drag about to 30 basis points for other items, which include percentage rent and other property level income and expenses.

A couple of final comments on same-property growth. First, thinking about the next couple of quarters, we are projecting a negative growth rate in the first half of 2020 driven by the timing of prior year bankruptcy closures. And second, and this is most important, as we look beyond 2020, we are encouraged by our strong leasing results and the progress we are making on our redevelopments. And as Lisa explained, this visibility gives us confidence in our ability to return to our strategic objective of 3% or better same-property NOI growth over the long term, including taking a big step toward that goal in 2021.

Let's now move to Slide 3, which is a roll forward of our 2020 earnings guidance, where I'll just -- well, I'll touch on just a few items. Our 2020 NAREIT FFO per share guidance range is $3.90 to $3.93. The contribution from the total NOI growth is expected to be minimal, with growth essentially only coming from ground-up development completions, offset by performance of our nonsame-property assets. And quickly, on that -- on our nonsame-property pool, beginning in 2020, and as indicated on a previous call, we have moved Costa Verde into our nonsame-property pool due to the scale of the project and major disruption in NOI of over $4 million that will occur over the next 2 years as we actively delease the asset. Transparency is an inherent value of Regency, and in that spirit, we feel -- we felt like this project, given its size, would materially distort the performance metrics of our remaining portfolio, both as NOI comes offline and also when NOI of about $18 million comes back online following completion. You can find property level information to appropriately model the impact of Costa Verde, together with additional disclosure around other changes in the property pools in our supplemental.

Please also remember that we sold approximately $130 million of equity last September on a forward basis through our ATM. We can settle this trade at any time through the third quarter, and proceeds were targeted to fund our outsized development spend this year, while keeping our leverage in check, which is a good time to note that we are now providing guidance on development spend, together with development starts and anticipate spending the $300 million area this year. Finally, noncash items, which primarily include straight-line rent and above below market rent, are expected to decrease by approximately $7 million. As a reminder, in 2019, we recognized significant income related to the acceleration of below market rent balances following moveouts of a few anchor leases. This has increased the rate of deceleration on this line item.

And lastly, while we are only providing NAREIT FFO guidance, we will continue to measure and report the performance of our business using core operating earnings, which eliminate certain nonrecurring and noncash items. We anticipate core operating earnings growth per share to be flat to slightly positive in 2020, but we remain confident in our ability to return to 4% plus earnings growth over the long term. As we look forward, the team is extremely focused on achieving our objectives, and we all remain confident in our ability to continue to deliver earnings growth, dividend growth and in turn, total shareholder return that is at or near the top of the sector. That concludes our prepared remarks.

And we now welcome your questions.

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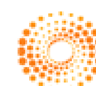

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Christine McElroy from Citigroup.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

Lisa and Mike, you both mentioned in your prepared remarks about commenting on sort of getting back to that 3% same-store NOI, 4% FFO growth in 2021 and beyond. I think a lot of us are sort of looking to 2021 now, given the flattish growth expectations in 2020. And Mike, you sort of laid out those component. I'm wondering if you could sort of help us bridge that gap from a -- from the flat in 2020 just to a more elevated pace in same store in 2021, you've got the what's likely to be the 125 basis point of contractual rent growth, the 75 basis point contribution from rent spreads, but then how does -- how should we be thinking about the redevelopment contribution in 2021 given all the moving pieces and also the recovery in rent paying occupancy from the bankruptcies and moveouts that you're experiencing this year.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Christy, it's Lisa. I think you just answered the question with your question.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

Well, it's really more the breakout of those last 2, right, it's sort of occupancy versus redevelopment.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Yes, because it really -- so you start with the -- we do have -- the team has done a great job continuing to get contractual rent steps. Our leasing spreads are really healthy, right? So there -- so we're starting at 2%. And then we do -- have a lot of visibility, as we've said in our -- as we said in our prepared remarks, as you have heard us say prior to the redevelopment contribution coming back in 2021, more like what it had been historically and that 75 basis point range, perhaps even more, certainly looking even better in 2022. But I'm not giving formal 2021 guidance or certainly not 2022. We're going to execute on 2020 first and make sure that that we meet those expectations.

With regard to the rent paying occupancy, that's always going to be an unknown. But as we have said, 2020 really is -- it was a rare, I think, Hap's words last quarter were a rare confluence of events to have 2 really large bankruptcies in Barneys and IPIC, and add Sears on top of that. We just don't see that replicating in the future because of the magnitude of those spaces. So rent paying occupancy is certainly an unknown more than 12 months from now, so is economic uncertainty, but we feel really good about contractual rent steps, lease spreads and redevelopment contribution.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

Okay. And then just as I think about sources and use of capital, you're looking at the $300 million of development and redevelopment spend, which we appreciate that guidance. You've got $170 million of free cash flow that you've talked about, which generally would fund most of that on a leverage-neutral basis, but you're also sort of over equitizing with $130 million of forward equity. So I'm wondering why the sort of additional $125 million of net dispositions on top of that, which is causing a dilutive impact to your FFO. And sort of where does all that capital raising leave you from a leverage perspective at year-end?

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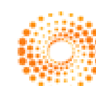

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Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Christy, it's Mike. Appreciate the question. The dispo guidance really is a carryover from '19. So this all, in effect, goes back to our funding plan for The Pruneyard acquisition. So what I would say to balance out, the sources and uses, which you nailed right there, is that we are planning to reduce our overall debt level in 2020 by about $100 million, $110 million.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

Okay. And that's sort of causing the lower interest expense guidance, there's...

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Yes, the lower interest is being driven by that as well as some accretive refinancings, we're going to do within the joint ventures in 2020 together with the accretive refinancings we executed on in '19 through the bond market.

Operator

Our next question is coming from Nick Yulico from Scotiabank.

Greg Michael McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

This is Greg on with Nick. I just want to talk about rent spreads a little bit. I mean very strong in Q4, healthier spreads we've seen this year in both new leases and renewals. Could you talk about some of the deals that you guys were able to complete this quarter to help boost those metrics? And what you anticipate seeing from spreads in 2020?

James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

Yes, Greg. This is Jim. As you noted, we had a real strong fourth quarter. And it was really pretty heavy on the anchor side. Every quarter, we look at the mix, and we were heavy on anchors this quarter. And we have some really good, accretive and strong anchor deals. Publix, LA Fitness and Roosevelt, Edge Fitness, backbone of Kmart, all very, very accretive deals and help to increase that new percent leased, the spreads on new as well as the King Kullen grocery mark-to-market on the renewal side. So that was pushing the spreads pretty strong this quarter. But overall, I think the -- we still target that that mid to high single digit, 8.5%, that meets our objective long term, and that equates to about a 15.9% straight-line rent growth, and both of those metrics are where we'd like to be.

Greg Michael McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Great. And then just hoping to grab some clarity on transactions as well. So first on that is, do you count -- use incremental purchases to Town & Country into acquisition guidance? So basically, not much left to do this year? And then on the dispositions, only $100 million at this point left?

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Greg, yes, that is somewhat of a technicality in our guidance. So we have been -- the initial entry into Town & Country, we did show as an acquisition. I think that was in '18. We've staged some acquisition -- additional shares in the property throughout '19, and then this is, in effect, kind of our final piece, hopefully not. And hopefully, we'll find a way to buy them even more of this asset. But we are not including that in acquisitions guidance in 2020. It's -- in effect, I'm thinking about that as added development or redevelopment spend at Town & Country. So we do had a project -- we have a project under contract in Southern California actually that we are excited about, honestly, probably too early to talk about that deal. But we look forward to making progress on our due diligence and potentially closing on that in the early part of 2020.

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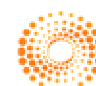

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Greg Michael McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And just a quick follow-up on transactions. Can you just give us an update in terms of, obviously, there's that one that you're talking about there. But in terms of other product that you're seeing in the market right now, have increasing CapEx need start to bring more maybe high-quality mom-and-pop owned assets to the market? And then what's the impact been on cap rates as well?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Greg, this is Mac. We're still seeing very -- sort of very few of the types of properties that we typically buy on the market. So that scarcity has really kept cap rates very low. Cap rates haven't moved in quite a while. The types of progress we're looking for are, not only ones in the submarkets and traders that we do well in and have long-term growth potential, but also where we can use our platform and our expertise to really -- it's either core plus or a value add, or somewhere we can really find some long-term growth beyond just a core acquisition. Not seeing a lot of those, but we are in the market all the time and just by nature of our 22 markets, we see everything that comes to market.

Operator

Our next question is coming from Derek Johnston from Deutsche Bank.

Derek Charles Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

So the Barneys is unique, but you did lower the carry value closer to market. Has there been much interest in this space? I mean are you evaluating it as a possible disposition? Or are you committed to weather the downtime in CapEx? And is the associated redevelopment project baked into guidance?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Derek, this is Mac. I'd be happy to answer that. We're looking at really 3 scenarios. Definitely sale, we're considering that. And we're in the marketplace to see if that is -- could transact it when we're looking to redevelop it in either a multi-tenant scenario or single tenant scenario. So we're in the marketplace too as well. So all are very viable options, and we're not going to limit ourselves to one of them. And as we get more clarity, we'll be sure to communicate that.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

I think the most important thing as we're evaluating the options is how can we maximize value, really, and time matters as well when you're thinking about returns to -- returns to us as well as returns to our shareholders. So how can we maximize value in really the shortest amount of time. And that's how we're thinking about it.

Derek Charles Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And just you mentioned the Market Common in Arlington. Just wondering how discussions with prospective tenants for the office component are progressing? Office tenants tend to make decisions relatively early. And with yield compression being an issue that's being discussed out there, is the 9% yield still attainable on this project?

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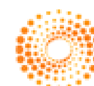

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Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Derek, this is Mac again. We believe so. We've -- having signed now Equinox, that's really a big boost to the product and the tenant tours that we've had have gone very well, very favorable. Now that you can get actually up to the upper floors and see the tremendous views back there, which you couldn't until we got the frame completed. We've had great interest. Now it takes time to convert interest to LOIs into leases, but we feel good about where we are on the prospects and we'll continue to communicate that as we start to absorb.

Derek Charles Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Great. And just one real quickly on escalators. I think they were north of 2% towards the end of last year for new and renewed leases. Is this holding firm in the current environment on new leases that you guys are writing?

James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

Yes, Derek. Jim, again. We continue to have very good success in embedding that 2% increase in over 80% of our leases. So we feel like we can continue to follow that path.

Operator

Our next question is coming from Jeremy Metz of -- from BMO Capital Markets.

Marissa Delikoura - *BMO Capital Markets Equity Research - Associate*

This is Marissa on for Jeremy. I just wanted to go a little bit more in-depth on acquisitions. Specifically, what sort of upside dynamics are you looking for to keep paying a mid-4% cap rate in the current environment? And also that -- how is the IRR, you're underwriting changed, if at all, in the last 12 to 18 months?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Marissa, it's Mac again here. Really, the upside, we underwrite a 10-year term just like almost everyone else does. And in order to get that IRR in the mid-6s, sometimes upper mid-6s, sometimes 7, they're paying the product type, you need really strong compounded growth, and we get that through contractual bumps. Sometimes there's mark-to-market leases, they're under market today. And then often in the -- sorry, the second 10-year period, there's even more upside on some of this. That could be through densification. It could be through an anchor lease that finally comes due, that doesn't show up in our 10-year, and those are the kinds of things we look for. We also look for improving demographics. Neighborhoods where demographs are trending up and in the right direction, so you might not see that in the leases that are signed today, but we think we can upgrade, not only rents, but the merchandising and in the physical plant to as well. Ours haven't changed materially for what we're looking for. We certainly are -- we scrutinize our underwriting very carefully, and we think that's obviously embedded in our underwritten IRR so not a material change to that.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

I think I just would add, if you think about -- I mean Mac's exactly right. If you think about where we have been successful in the properties that we've acquired really over the last 3 to 5 years. It's where we're able to bring our talent and our expertise, whether it be very proactive asset management, as Mac mentioned, or even our redevelopment and development capabilities. That's when we're really able to compete with the other buyers that are out there in the market. If it's just a straight down the fairway core shopping center, we haven't been quite as successful. So that's why we're able to turn these low to mid-4 cap rates into IRRs, sometimes north of 7% as Mac said.

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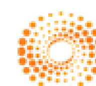

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Operator

Our next question is coming from Craig Schmidt from Bank of America.

Craig Richard Schmidt - *BofA Merrill Lynch, Research Division - Director*

I was wondering if you guys expect a pickup in small shop occupancy by year-end '20, particularly given the strong anchor leasing you're able to do in the fourth quarter, which you can sort of leverage against some small shops?

James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

Craig, Jim here. Yes, I think with the momentum that we're seeing, we feel like we can pick up some ground. We've talked about it. We've had a high, I think, at 93% leased at one point. So I'm not saying we could get back there, but I do think we've got some runway, and I think we're going to pick up some around this year.

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Yes. Let me add some color there, too. I completely agree with Jim, what we're seeing in our forecast is that we will make up some ground on a spot basis and anticipate percent leased at the end of the year potentially increasing from this point. But importantly, and as presented in the materials, we are anticipating our ramp in occupancy to be down in 2020. And that's just representing that trough in leasing that that is a result of all of our leasing activity, signing new leases, commencing new leases as well as moveout activity.

Craig Richard Schmidt - *BofA Merrill Lynch, Research Division - Director*

Okay. And then assuming there isn't an outright sale, how long may the Barneys redevelopment to lease to different types of tenants, maybe, I mean, how long may make that -- may that take?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Well, it certainly -- if you went to a single tenant basis, it'd be relatively quick, but a multi-tenant scenario, a reasonable estimate would be probably 2.5 years.

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Yes, and let me just add from a disclosure standpoint, Craig. As we refine that decision and move forward between sale and redevelopment, if redevelopment is the path we take, we'll certainly add that disclosure to our supplement and you'll get a better picture of timing.

Operator

Our next question is coming from Rich Hill from Morgan Stanley.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

We discussed last quarter timing of leases and moveout. And you sort of alluded to this at the beginning in the prepared remarks, but I was wondering if you could just give a little bit more updates on how moveouts have been trending so far?

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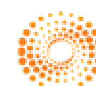

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Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

From a volume perspective in '19 and '20, and I'm going to limit these comments to the -- what we're seeing in our shop space because I think that is where some of this -- I think in the anchor space, it can be pretty volatile for the given reasons in those known identified tenants of Barneys and IPIC, et cetera. But on shops, we are anticipating a consistent level of moveouts year-over-year '19 and '20, and that number is in the million square foot range, plus or minus. And we don't see that kind of volume changing. If you think about that over a 4-, 5-, 6-year period, that level of volume is up on the margin, but we're replacing that with new leasing activity as well.

We had -- we signed over 7 million square feet of leases, and that's obviously including anchors. But the pipelines, as we look at our leasing activity remain full, and we're replacing the tenants that we're losing to moveouts. And I would say, we're upgrading the merchandising mix and the quality. And while we already have a very high-quality tenant roster, we are making improvement on the meaningful margin with every one of these new leasing transactions.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

Got it. That's helpful. And Lisa, just to thank you for the bridge on the NOI. That's very, very helpful. So that's it for me.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Thank you.

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

I have to say, credit goes to Laura Clark on that. We find it to be a really helpful tool, and we appreciate that you all are finding it to be the same.

Operator

Our next question is coming from Wes Golladay from RBC Capital Markets.

Wesley Keith Golladay - *RBC Capital Markets, Research Division - VP & Equity Research Analyst*

Just quick question on dispositions. Every year, Regency has a strategy to shut the bottom tier of the portfolio. But when I look at the 5.5% cap rate this year for the planned dispositions. Is that more opportunistic sales and where are cap rates now for you -- the bottom tier of your portfolio?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Wes, this is Mac here. A typical normal year is about a 6.5% cap rate. This year, 2020, we're guiding to a little bit lower. It's really because of 2 assets. There's 2 shopping centers that we're selling, one we've already sold, and they're basically being sold to nonretail users. One is going to convert the property to a condominium development, that's the one in Florida. And the other one is a office user that's going to buy the property and scrape it. So there isn't -- we've whittled down the income in those properties and that's -- makes the cap rate go down. But in general, a typical is sort of the 6.5% cap, that's typically what we're selling and those are nonstrategic assets in nonstrategic markets and typically have lower growth profiles.

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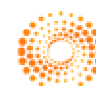

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Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Yes. So it's just -- generally, we're not changing the kind of the identified kind of disposition pool, if you will.

Operator

Our next question is coming from Mike Mueller from JPMorgan.

Michael William Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

A quick question on the potential -- the 75 basis points of occupancy headwind for 2020. How much, if any, of that was already reflected in year-end, 93% level?

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

In the percent commenced?

Michael William Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Yes. Is anything in there already? Or is it that 75 basis point is all incremental starting on January 1?

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

No. Some of it was in the percent commenced at year-end, like, for example, iPic had already moved out. So to get you a precise number, Mike, I'd have to come back to you offline. But it's not all incremental to percent commenced at year-end. Again, just for clarity, this is average rent paying occupancy. The 75 basis points you're citing is average rent paying occupancy year-over-year. So there could be some tag over from year-end.

Operator

Our next question is coming from Vince Tibone from Green Street Advisors.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

I have a few questions on the Serramonte redevelopment. I'm just curious given the stabilized yields or on the project are pretty skinny, and malls are obviously not your core property type. Did you consider selling the asset over starting that project. I'd be curious to hear your thoughts on that?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Sure, Vince. I'll take this one. This is Mac. The yields are a little lower than what we typically see. And that's for a couple of reasons. The first is we elected to relocate the gym that operates there today. It's a very well performing gym. We thought it was worth it to move them out to a pad and replace them with a new theater. That's also going to add extra energy, the mall traffic to the interior of the mall that will help all tenants, and we think the gym will operate even better actually on a stand-alone. The yield also includes this modernization to the interior of the mall, which hasn't been done in a long time.

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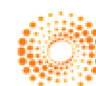

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And the benefit we see over that actually takes a long time to realize because we're very well leased. But as tenants turn, we're already seeing better tenants offering better rent and tenants that have always loved the location, but they were a little hesitant because the interior of the mall is a little outdated, and this will really help to that. So you'll start to see that benefit over the long term. And then the third phase is to JCPenney, which will take some time. We've got a lot of different options that we're still evaluating. We still are very bullish on the mall property. The location is terrific, and we're very comfortable operating it. We have some history now to it, and we really like the prospects long term.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Yes. And I would just reiterate that. It is a really high-quality shopping center. Yes, it's a mall, we don't own any other malls. But there's still a lot of value to be harvested from it as well. And we can really apply -- we've got and we've got an exceptional team out there. And we're, again, applying our talents to that asset and really creating value. And in some sense, I know you've had the opportunity to visit it, it almost is a community shopping center for Daly City. It's an exceptional asset.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

Now it make sense. That's really helpful. Just one quick follow-up on that. I'm just curious, do you have to pay JCPenney to recapture that box? Or how did you end up getting control of that mid this year?

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Yes, we had to make a -- there is a very small payment to JC Penney. And that's what was driving that kind of rapid increase in our write-off of noncash below market rents, starting last fourth quarter. JC Penney will be out, I think, end of May.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

Right. Got it. So you bought the lease, but you always own the box, just to make sure I clarify that.

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

That's right. That's right. And that whole -- that entire property, we own everything, there's nothing -- there's no separate pieces. And we think that also gives you lots of optionality over the years.

Operator

(Operator Instructions) Our next question today is coming from Ki Bin Kim from SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So in the 2020 guidance, you have 140 basis points accounting for rent paying occupancy declines. And in your commentary there, you said 75 basis points from the known moveouts from Barneys, IPIC, Sears and some others. So can I take that to mean that 65 basis points is for unknown future events?

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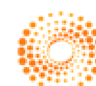

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Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

I want to break down what you said there, Ki Bin, and just make sure we're all talking about the right numbers here because I think we were crossing over between rent paying occupancy declines and impact to same-property growth. So we are forecasting 75 basis points of rent pay and occupancy decline related to bankruptcy activity and an additional 15 basis points of rent paying occupancy decline due to the timing of other leasing activity. That translates to an impact on same-property growth. That impact on same-property growth is 140 basis points from the bankruptcy category, right, and then another 30 basis points from the leasing activity category. So I think -- and then further breaking down that 140 basis points same-property growth impact, there's 2 categories, that we've kind of segmented these 3 tenants that are materially driving our numbers: Barneys, IPIC and Sears is 60 basis points, and then everything else is 80 basis points.

So let's keep digging in here, Ki Bin. It's a good question. We want to make sure we got through here. Of the 80 basis points, and that compares historically to a range of -- in recent history, 10 to 80 basis points, around the upper end of that, roughly half of that is identified and that's the Pier 1s and the other tenants, Dress Barn that we identified on the prepared remarks. And the other -- the 30 to 40 basis points would be more speculative assumption based that we have in our plan. And that is just supported by our -- just looking at the environment that we're in, considering what we experienced in 2019, we thought it was an appropriate level to carrying a plan.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And you think that the 40 basis point, do you feel comfortable with that, given what you have rolling over, what you know about your tenants?

Michael Mas - *Regency Centers Corporation - Executive VP & CFO*

Yes, we feel comfortable with that, Ki Bin.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. And how often are you guys doing preemptive rent restructurings with some trouble tenants before they go BK?

James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

Ki Bin, this is Jim. We're in dialogue, as you can imagine, in today's environment, we get a lot of knocks on the door from tenant to asking the question. But our general position, I think I've said this in the past, our general position is, we like our real estate. We feel very comfortable with our real estate. Sometimes sick tenants -- it's better to take your real estate back and remerchandise. So we play a pretty hard game when it comes to rent reductions and those kind of requests. Some instances, we will evaluate and determine that working with a tenant on a short-term basis with the landlord we capture might make the most sense. But in general, we play pretty hard on rent reduction.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

On the changes -- and the proactive asset management of upgrading the merchandising. We do that all the time. I mean it's just part of the business. And we do -- and if I may say so, -- I'm not patting myself on the back. I'm patting the team on their back. They do a really good job of it and have for a really long time.

James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

We are -- just to tag on that. We are very proactive, take the Dress Barns, for instance. We have 10 locations, and we just got them back Q4. And basically, all 10 are spoken for, so we're proactively leasing these things that we think have an opportunity to recapture. So that's part of the reason we can be strong in the negotiation because we know the real estate, we know what our opportunity pool set looks like.

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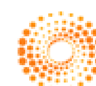

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Operator

Our next question is coming from Linda Tsai from Jefferies.

Linda Tsai - *Barclay PLC, Research Division - VP, Research Analyst, Retail REITs*

Tenant allowances on new leases were up a little in the past 2 quarters, 32 a foot in 3Q and 39 in 4Q versus 24 to 25 the prior quarters. What's driving these increases? And will this remain elevated in the coming quarters?

James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

Linda, it's Jim. As I indicated, the mix this year -- this quarter was really anchor driven. So that was one of the reasons. Obviously, we continue to see increases in construction costs in general across the board, but it was really mostly the mix, and they were all LA Fitness, Talbots, Marshalls, Edge Fitness, great tenants, really good merchandising backfills. But at the end of the day, when we step back and look at our capital spend, we think that number is somewhere between 10% to 10.5% of NOI at the end of the day. And taking out the quarter-over-quarter movements, we think that we'll continue to operate in that 10% to 10.5% NOI spend.

Linda Tsai - *Barclay PLC, Research Division - VP, Research Analyst, Retail REITs*

And then Amazon is opening a low-cost grocery store format in 2020 as an alternative to Whole Foods and Amazon Go. Will your properties see any of these openings? And if so, any store details you're comfortable sharing?

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Just as we answered that question last quarter, we're unable to talk about anything at this point.

Operator

Our next question is coming from Chris Lucas from Capital One Securities.

Christopher Ronald Lucas - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

Just a follow-up on Serramonte, Macy's had disclosed a store realignment programs, shrinking the footprint again. Have you guys had any conversations with them about your store there at Serramonte?

Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

Chris, this is Mac. We talk to them all the time, and especially recently as part of this redevelopment. But they have given us no indication that they're unhappy with the store or they haven't requested rent relief or anything like that. So no new news in that front.

Christopher Ronald Lucas - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

Any thoughts about being more proactive in terms of trying to buy them out?

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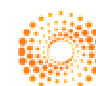

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Dan M. Chandler - *Regency Centers Corporation - Executive VP & CIO*

We're always looking for opportunities just like that, just like we accomplished with JC Penney on that same property. So that's always an option that we explore.

Christopher Ronald Lucas - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

Okay. And then we've seen a couple of regional grocers file or -- and/or close stores first part of this year, Fairway, Earth Fare, Lucky's, you've got a little bit of exposure to Earth Fare and Lucky's. Just curious as to how you're thinking about the sort of regional grocery player at this point in the cycle? And how you're thinking about sort of your tenancy in that vein going forward?

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Chris, we really haven't changed our point of view. Generally speaking, as you've heard us speak quarter-after-quarter, we really want to make sure that we're aligning ourselves with the better operators, with strong balance sheets, and with the ability to reinvest back in their business. So certainly, smaller operators and especially those with higher leverage, are facing more of an uphill battle. No question. And we continually are looking at that. It doesn't mean that all regional, smaller grocers are not going to be able to survive and thrive in this environment, but they have to have the ability to reinvest back in the business in the in-store experience as well as technology, delivery, everything that's happening in the world of grocery. It's an ultra competitive retail segment and has been for a really long time. And those better operators that have the ability to be flexible, nimble and actually innovate are the ones that are going to continue to succeed in the future. It's always disappointing to see any retailer fail, it impacts people's lives, but it is part of the business, and it's something that we've dealt with for as long as we've been a retail shopping center company.

Operator

We reached end of our question-and-answer session. I would like to turn the floor back over to Lisa for any further or closing comments.

Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Just want to thank you all for your time. We'll see some of you, I think, in the next month or so. And a very quick happy birthday to Madison, Greg and Amy. Thank you all.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.

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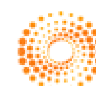

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