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Regency Centers Corp. (REG)

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Regency Centers Corporation third quarter 2018 earnings conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Laura Clark, Vice President-Capital Markets. Thank you. You may begin.

Laura J. Clark

Vice President-Capital Markets, Regency Centers Corp.

Good morning and welcome to Regency's third quarter 2018 earnings conference call. Joining me today are Hap Stein, our Chairman and CEO; Lisa Palmer, our President and CFO; Mac Chandler, EVP of Investments; Jim Thompson, EVP of Operations; Mike Mas, Managing Director of Finance; and Chris Leavitt, SVP and Treasurer.

I would like to begin by stating that we may discuss forward-looking statements on this call. Such statements involve risk 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 forward-looking statements. On today's call we will also reference certain non-GAAP financial measures. We 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.

Before turning the call over to Hap, I would like to thank those of you who participated in our investor perception study. We are grateful for your candor and appreciate the feedback. Hap?

Martin E. Stein

Chairman & Chief Executive Officer, Regency Centers Corp.

Thanks, Laura. Good morning everyone.

In our evolving business, we continue to see the rise of retailers that have identified what it takes to remain relevant and evolve in the fall of those that have not. As we all know, Sears was once a successful brand. Then the ebb and flow of the retail industry, their declining performance over the last decade, further hindered by excessive debt, illustrates how critical it is for retailers to keep the pulse of consumer preferences and expectations. Sears' failure along with the success of numerous winning retailers also demonstrates the importance of having the capital to invest in the betterment of the store, customer service and experience, as well as a technology platform that supports multi-channel retailing.

The best-in-class retailers, including Amazon, Whole Foods, Kroger, Target, Publix, and TJX, just to name a few, continue to make sizable investments in their bricks-and-mortar footprints. Based upon our many conversations that we've had with key retailers, it is clear that physical stores remain a very critical component of a multi-channel strategy. It's really apparent in how retailers are investing in their physical footprints and providing a seamless and differentiated shopping experience to meet the evolving needs of their customers.

Kroger is not only enhancing their technology and delivery platform, but investing in their store through the Restock Kroger Initiative, which focuses on customer experience, value, and talent development. Safeway/Albertsons while partnering with Instacart rolling out Drive Up is also remerchandising 400 of their stores. Publix continues to heavily invest in both new and existing locations, with plans to redevelop over 130 stores this year as part of their $1.5 billion capital plan.

Publix has also demonstrated a real point of differentiation with their commitment to exceptional customer service. Going above and beyond offering aid in communities that were impacted by recent catastrophic storms is yet another example of the many ways that grocers are able to effectively connect to their shoppers and communities.

Target has expressed their commitment to bricks-and-mortar and indicated that the store is the central part of their strategy. They plan to remodel all stores by 2020, continue to open their very successful small-format store, and are investing in their team as well as pickup and delivery service.

In addition, Amazon has announced an aggressive rollout of bricks-and-mortar locations, and this is in addition to the large investment in Whole Foods.

These and other best-in-class retailers are benefiting from the proactive investments and producing solid results. Publix reported strong comparable sales and generated an impressive nearly $1 billion in free cash flow in the first half of the year. TJX's comparable store sales rose 6% last quarter, and Target reported their largest quarterly sales growth in 13 years.

Our well-conceived and well-merchandised shopping centers, located in trade areas with substantial purchasing power, appeal to these and other outstanding retailers and restaurants. Regency's proven strategy, which our team has successfully executed with astute capital allocation and intense asset management, has been distinguished by sector-leading NOI growth over the last six years.

We do spend a significant amount of time ensuring that Regency is staying relevant and employing our unequal strategic advantages to achieve our objectives: first, owning a high-quality portfolio that sustains sector-leading same-property NOI growth; second, creating substantial value through our national development and redevelopment platform; third, maintaining a very conservative balance sheet; and four, engaging a team that is the best in the shopping center business that's guided by Regency's special culture and operates efficiently with industry-leading systems; and finally, earnings and dividend growth, and in turn, total shareholder return that is consistently at or near the top of the shopping center sector.

JT?

James D. Thompson

Executive Vice President-Operations, Regency Centers Corp.

Thanks, Hap.

Core fundamentals within Regency's premier portfolio remain extremely healthy. As Hap said, retailers continue to see value in locating at higher-quality shopping centers and staying close to their customer. This is evident as occupancy climbed to nearly 96% this quarter. Move-outs were the lowest they have been in two years and bad debt remains very healthy.

The strong fundamentals across our portfolio translated into another solid quarter of same-property NOI growth, driven by base rent growth of 3.8%.

As I noted on our prior call, rent spreads in any given quarter can vary based on the mix of leasing. This quarter, we executed on several opportunities to bring valuable anchor spaces to market, resulting in new rent spreads at 35% and total rent spreads of 10%.

I'd like to take a moment and highlight our shop space performance that clearly demonstrates the quality and resilience of our portfolio. Our shop space percent leased has been 92%-plus for the last six quarters. We are seeing demand for space across all categories from many thriving tenants. We've been successful executing increases in starting rents, and in addition, are achieving contractual rent steps for shop space that average 2.5% while judiciously managing capital commitments, all leading to strong net effective rent growth for the last five years.

I'd like to touch on recent retailer bankruptcies before turning it over to Mac, and I'll start with a Toys "R" Us update. Of the five locations originally in the portfolio, one of the locations was released and the center has been sold. One location was assumed by another retailer at auction where we experienced zero downtime. One has been released as already rent commenced. And the remaining two locations that we most recently acquired at auction we're in active negotiations with a specialty grocer and a fitness user.

Next, we have 25 Mattress Firm locations in our portfolio. Only five of these leases have been formally rejected at this time. Most importantly, we are confident that with the quality of our real estate we will have the opportunity to upgrade merchandising as we backfill any closures.

And finally Sears, where we have two Kmarts and one Sears location. Two of these locations were included on the initial closure list, both of which are redevelopment opportunities that we are excited to finally unlock. All three are located in grocery-anchored shopping centers where grocer sales average over $950 per square foot, demonstrating the draw of our real estate as well as the opportunity and our ability to substantially upgrade the anchor. Average rents on these locations are less than $8 per square foot.

Though these bankruptcies will certainly impact near-term results, more importantly, the remerchandising and redevelopment opportunities triggered by recapturing this real estate will positively impact our shopping centers over the long term.

Mac?

Daniel M. Chandler

Executive Vice President-Investments, Regency Centers Corp.

Thank you, Jim.

The healthy fundamentals we are experiencing in our operating portfolio are also evident in our investment activity. We continue to find compelling ways to astutely invest our capital and build both our new development and redevelopment pipeline. Our in-process development and redevelopment projects are performing very well, with strong leasing interest and economics in line with underwriting. For example, this quarter our Mellody Farm development in Greater Chicago celebrated its grand opening with all five anchors, including Whole Foods, REI, and Nordstrom Rack open for business. All have reported impressive sales, exceeding expectations.

In regards to our pipeline, we continue to make progress on our development and redevelopment opportunities and are positioned to achieve our five-year goal of $1.25 billion to $1.5 billion in starts and deliveries. Our local teams are pursuing new opportunities in our target markets, including LA, DC, and Houston.

We are also making meaningful progress on our pipeline of infill redevelopments. We are especially excited to start the redevelopment of the office building at Market Common Clarendon and The Abbott in Cambridge, which should start in Q4 and Q1 respectively. Further, our entitlements are progressing positively in Bethesda, which should allow our Westwood Shopping Center redevelopment to commence next year. And while we are in the early stages from a timing standpoint, we are making great strides to unlock the value creation opportunities at several premier properties such as Costa Verde in San Diego, Town & Country in Los Angeles, and Piedmont Peachtree in Atlanta's preeminent Buckhead market.

These larger-scale pipeline opportunities and others, especially those that are mixed-use with non-retail components, take tremendous discipline, expertise, and persistence. Proudly, our platform possesses these qualities. And as we've said in the past, if we decide to co-invest in a compelling non-retail component that will complement our retail, we will only partner with best-in-class, well-capitalized developers.

Moreover, we continue to unlock value through redevelopments that are more tactical in nature. This is a focus where we have enjoyed great success over the years and it's an integral part of a proactive asset management and Fresh Look merchandising and place-making philosophy. Current examples include Bloomingdale Square, a $19 million redevelopment that started this quarter where we are relocating and expanding a Publix into a former Walmart space and adding Home Centric and LA Fitness to the shopping center. At Gateway at Aventura we proactively acquired a former Toys "R" Us box at auction and are now in anchor negotiations to greatly enhance the value and drawing power of this excellent property. Lastly, at Point 50 Fairfax, Virginia we are completely repositioning the center by building a new Whole Foods 365 as well as several new shop buildings.

Now, turning to transactions, similar to last quarter, there's a limited availability of institutional-grade shopping centers on the market. Demand and pricing for these high-quality centers continues to be strong. On the selling side, the momentum we reported last quarter is coming to fruition. The buyers for these centers that we are selling are still discerning the market has improved as debt markets have solidified and deals are getting done. We have more visibility into expected sales volume for late 2018 and early 2019 and have accordingly increased our disposition guidance. The upward revision to our disposition cap rate is a reflection of the pool of properties we expect to close and not a change in pricing expectations.

As a reminder, our strategy is to sell approximately 1% to 2% of our asset base annually. We invest these proceeds along with free cash flow into value-add development and redevelopments, high-growth acquisition of our own stock when pricing is compelling. This quarter we co-invested in Ridgewood Shopping Center located inside Raleigh's Beltline and anchored by a highly productive Whole Foods. This center had been owned by the same family for nearly 70 years, and our local presence and deep market knowledge gave us an inside track to acquire our 14th shopping center in the Raleigh market. Lisa?

Lisa Palmer

President & Chief Financial Officer, Regency Centers Corp.

Thank you, Mac, and good morning everyone.

As Jim stated, we had another solid quarter as our high-quality portfolio continues to perform. Year-to-date same property NOI growth of 3.8% has been driven entirely by base rent growth. But as we mentioned on our prior call and as our full year guidance indicates, while we are still projecting strong base rent growth in the fourth quarter we do expect a deceleration in overall same-property NOI growth as this strong base rent growth will be offset by three main drivers. First, as expected, our real estate tax reassessments in California triggered by our merger with Equity One has started to come in and are retroactive to the date of acquisition, so essentially this equates – it actually is – two years of real estate tax expense. While the vast majority of real estate taxes are recoverable from our tenants, we will experience a drag from the non-recoverable portion of these reassessments.

Next, we are also up against a tough comp in base rent from redevelopments that came online in the fourth quarter of last year, specifically from two much larger projects, Serramonte and Aventura. And lastly, as Jim discussed, the recent retailer bankruptcies will create opportunities to remerchandise and reposition our real estate in the future. These will have near-term impacts. So although the timing related to the Sears bankruptcy could moderately swing us one way or the other, we have incorporated reasonable assumptions on their move-out dates into our revised 2018 same-property NOI growth guidance of plus or minus 3.25%. Turning to earnings. Both NAREIT FFO and operating FFO for the full year were revised upward by $0.01 at the low end, incorporating slightly better performance in same-property NOI.

Before we turn the call over for questions and reminding you that we won't provide formal guidance for 2019 until early next year, I still would like to give you some insight into our same-property NOI growth expectations as we do look to next year. Let me start with a reminder of our roadmap to our same-property NOI growth objective. First, embedded in the portfolio is 1.3% growth coming from contractual rent increases. Then, another 1% to 1.2% comes from new and renewal leasing rent spreads. Combined, these provide about 2.5% growth. Finally, the contribution from redevelopments is expected to add another 50 to 100 basis points of annual growth. Together, absent any changes in rent-paying occupancy, these components equate to our strategic objective of 3%-plus average annual same-property NOI growth.

However, our initial look into 2019 includes a couple of short-term impacts to this roadmap. First of all, timing is still very uncertain. The downtime associated with our three Sears boxes could impact same-property NOI growth by up to 50 basis points. Next, the redevelopment contribution has been and will continue to be uneven at times. Over the past five years, including year-to-date 2018, the annual contribution has ranged from 40 basis points to 170 basis points, averaging at 75 basis points of positive contributions, thus the 50 to 100 basis points range in our roadmap. In 2019 the contribution is expected to be minimal as NOI is taken offline at some of our larger, more transformational redevelopment projects. So while the contribution from redevelopments to our NOI growth can be uneven, and I want to reiterate that, we still remain extremely excited about our expanding pipeline and the contributions to growth that will come in 2020 and beyond.

So the difficult to predict Sears's bankruptcy and the atypical contribution from redevelopments is likely to result in a more muted 2019 same-property NOI growth in the low to mid-2% range. That said, there's much more to come as we close out the year before issuing formal guidance. But most importantly, given our very high-quality portfolio and our active redevelopment pipeline, we continue to expect our same-property NOI growth to return to 3% or greater over the long-term. We're extremely pleased with our results this quarter and the position of our high-quality portfolio and fortress balance sheet, all of which support our ability to grow earnings and dividends which, in turn, expect total shareholder return to be consistently at or near the top of the shopping center sector.

That concludes our prepared remarks. We now welcome your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Nick Yulico with Scotiabank. Please proceed with your question.

Graham McGuinness
Analyst, Scotiabank

Q

Hey, good morning. This is Graham McGuinness on with Nick. I was just hoping you could provide some details on those new anchor lease signings. I'm just trying to understand if this is a repeatable situation. Of those 88 new leases, how much were actually above that 35% mark?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Greg, I'm not sure I can bifurcate that for you. But bottom line in that we had strong anchor growth of 85% really driven by Publix and LA Fitness Center Bloomingdale redevelopment. Those are the real leaders. As I said in my opening statement, the mix on a quarter-to-quarter basis is hard to predict and hard to try to analyze or bifurcate. But overall, we're real excited. 12.7% of that new gross rent was in shop space, so the combination of 35% is really across the board. On the renewal side, I will say that we were somewhat muted on a very large Target at Serramonte renewal, which was flat. So overall, we're real happy with the rent growth and like to track around the benchmark.

Graham McGuinness
Analyst, Scotiabank

Q

All right.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

And over time I think as we've indicated in the past, Greg, we're going to have a number of legacy leases that will repeat the benefit we receive from the Publix and LA Fitness leases and other leases that JT just mentioned. It won't be all the time, but over time we're going to see more of that and less of that.

Graham McGuinness
Analyst, Scotiabank

Q

Okay, great. Appreciate the insight there. And then I appreciate the details on the same-store NOI growth guidance as well, but I'm trying to understand a bit more here. So 3Q came in stronger than originally expected, so I'm just curious what changed there, if this was the full reason that guidance was raised, and if any of that impact that you were expecting is part of what got pushed into 2019.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Primarily it is the reason why, one, that we raised the low end of our earnings guidance and additionally took off the low end of our same-property NOI guidance. And it's just a matter of – as you know and as we all know, the most difficult thing to predict are move-outs. And we always incorporate a reason of what we believe to be a reasonable assumption, and that came in better than expected for the quarter. So we had fewer move-outs than we anticipated.

Graham McGuinness
Analyst, Scotiabank

Q

Okay, great. Thank you very much.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thanks, Greg.

Operator: Our next question comes from the line of Christy McElroy with Citi. Please proceed with your question.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Hi, good morning, everyone. Lisa, just following up on, again, the topic of the same-store NOI into 2019, just with regard to the California reassessments, the portion of that that's one-time, are we looking at another three more quarters of drag there to the recovery rate? And then in terms of the redevelopment, just to clarify, are you talking about – so inherent in the low to mid 2% range, is that zero contribution, or is that a drag from redevelopment?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

First, the real estate tax reassessments, we would expect that just the fourth quarter should be the last of the one-time impact. And next year, as in any typical year as in other states where properties are reassessed at certain intervals, we're expecting potentially up to like a 5% increase in real estate taxes next year. But remember that we do recover about 90% of that, so there would be a minimal bleed for that. And so the recovery rate going forward for all recoveries we would expect is right about where we are year to date, assuming no change in occupancy, so in the 82% to 83% range.

And then with regards to redevelopment contribution for next year, again, it's pretty early, as you know, and we need to have a little bit more visibility as to when leases come online and as we finish projects. So I don't know that we can give you any specifics, and we will do that early next year, but would expect it to be somewhere in the zero to 50% range of a positive contribution.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then just with regards to the accounting change, the $0.06 to $0.07 moving into G&A in 2019, I understand that that also includes the leasing costs that previously would have been capitalized into the basis of your in-process development projects. How much of the estimated $0.06 to $0.07 would have been attributed to normal recurring CapEx versus that development/redevelopment bucket, just geographically thinking from a modeling perspective just where that would have gone through?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Christy, I'm not sure I understand. You're asking how much of our internal leasing costs are – because the $0.06 to $0.07 is all of our...

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

No, no, no, just with regard to the $0.06 to $0.07, just splitting out the $0.06 to $0.07 with what would have gone through recurring CapEx versus what would have been through development/redevelopment spend, the leasing cost. Because it would have shown up in your development schedule, in the total cost attributed to each development project. So I'm wondering if that gets adjusted.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

It's still – but in our disclosure of when we give leasing capitalization costs, we'll have to get offline on that. We'll come back to you.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay, thanks so much.

Operator: Our next question comes from the line of Craig Schmidt with Bank of America Merrill Lynch. Please proceed with your question.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Thank you. On the three boxes from Sears Holdings, does Regency have control over these boxes?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Craig, at this point we do not. All we know is we have two boxes that were on the initial 142-store closure list. We've not heard any more than that. We obviously have been awaiting this day for a long time. Our teams have been focused on redevelopment plans. We feel like we're in great shape and eager to recover our real estate so that we can move forward and enhance our centers by backfilling these tired old Sears and Kmart boxes with more dynamic retailers today. More to come obviously, but no news other than it's showing up on the closure list and we're prepared when it comes back to take those two.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

And in addition, as Jim indicated earlier in the prepared remarks, the inbound comments and interest in the space has been very, very encouraging.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

And is there a broader acreage of land that comes with the stores?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

In the Sears specific, we have a tire/battery/auto and probably some excess parking area that we believe we can probably do some pad/outbuildings on. So beyond the box, we think there's some external redevelopment opportunity as well.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Okay. And was October rent paid on these boxes?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Yes.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Great. Okay, thank you.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thanks, Craig.

Operator: Our next question comes from the line of Derek Johnston with Deutsche Bank. Please proceed with your question.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, good morning. We've discussed the real estate tax assessment and how it relates to the EQY portfolio. But in relation to the Prop 13 bill in California, can you give us an update on the weighted average age of the legacy Regency assets there? Have you begun to assess that potential impact?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Yes, and it is just the legacy Regency obviously, as essentially those that are being reassessed, the age is zero if you will. So of the remaining, which is about 20% of our asset base, it's 13 years.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. And just switching over to the omni-channel repositioning that you discussed at the beginning, what efforts and the roles of the local strip-anchored grocers are you seeing? Which are best positioned to address online delivery, online pickup growth segments? And what actual investments are you seeing on the ground, and what can you guys do to expedite the adoption?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

We're facilitating the adoption of the pickup and delivery, and we're seeing a keen focus on the part of pretty much all of the grocers. But the key thing that's all-important, technology is important in the store, and they're all investing heavily in that. But it's also the shopping experience and the service that is really the point of differentiation, and I think that's critically important to remember and to keep that in mind. And that's the reason why we think that our grocer sales are as high as they are, both on an aggregate basis of $32.5 million and $650 per square foot.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc. Q

Great, thanks.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp. A

Thank you.

Operator: Our next question comes from the line of Jeremy Metz with BMO. Please proceed with your question.

Jeremy Metz
Analyst, BMO Capital Markets (United States) Q

Hey. Good morning. Going back to Sears and Kmart topic, assuming you can get control of those boxes, do any of those represent an opportunity to kick off bigger densifications of those sites just given how big the Sears and Kmart boxes presumably were? And then it sounds like you've more or less been ready for this as most have been. So any rough capital investment that this could potentially represent?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp. A

Jeremy, to answer the first question, we've studied the densification and believe our best avenue today is to replace with like retail. So the densification I think will be just higher, better-use, better-quality retail. And I'm sorry, what was the second?

Jeremy Metz
Analyst, BMO Capital Markets (United States) Q

About capital, it's early yet.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp. A

It's really too early. We've got a lot that's happening today. We've got a lot of interest from a lot of different players. And until we can spend some more time and really understand when we're going to get back and those kind of things, we're really not positioned today to talk about return. But we are – obviously we continue to target the 7% to 9% when we get our hands back on the redevelopment; that's kind of our goal.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp. A

I think, just to add a little bit of color, Jeremy, two of the three are Kmart boxes, they're not Sears boxes. So they are just typical legacy Kmart's and there's a reason we still...

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Right.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Because it's really strong real estate. And we do believe that it'll be an opportunity to upgrade the merchandising and then potentially also grow NOI at those centers.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

The teams were extremely excited about the opportunity.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

I know. That's fair. Question for Mac in terms acquisitions, the Ridgewood Center that you did anchor by Whole Foods, was this sourced by your partner or why not put that one on balance sheet, just given that since they've done a fair way for Regency? And then I guess sticking with acquisitions, one of your peers mentioned that moving rates causing some sellers to pull back. I know you guys have been active but maybe you can talk about what you're seeing and hearing out there from an acquisition standpoint.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Sure, thanks, Jeremy. You're right that Ridgewood is right down the alley through us. It's a terrific center. And we look forward to working with Whole Foods as their lease gets expired sometime in the next 10 years. Our partner was – that we acquired the property with actually had some internal recycling, so they were selling a center that we owned with them and this was part of their internal capital recycling. So, they were up in the rotation and we worked with them on that and that's the reason for that.

In terms of just overall perception, buyers are closing and we mentioned this last quarter there's, there is just a firmer footing underground for sellers; debt markets are cooperating; and it seems like the market has firmed up. And we've noticed that in the transactions we've closed to-date. And we have another $60 million under contract with schedule closings by year end and then another $65 million where we're negotiating purchase agreements but in those cases, buyers have already begun their due diligence.

So, they may not all close, but there are some could roll to next year and some could drop out. But we are seeing buyers feeling measurably better about things than they were six months ago and we're seeing that in the transaction market.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

So I guess there was also China. Wanted to start from an acquisition standpoint as you're out there, are you seeing, not you guys but other sellers in the market pull back a little bit here or has there been any change in the cadence of deals that are out there, that you're seeing?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

I think what makes it hard to measure is there is very little property of the caliber that we're looking for, that's on the market and you've seen very, very few transactions out there. So, there are definitely institutional buyers and advisors who are out there looking for the Class A product that we are, product that has a strong 10-year CAGR. But unfortunately, there's a pretty select few properties out there that are transacting because buyers – owners are reluctant to put their properties in the market because it's hard to find a replacement property. There's so little Class A on the market.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Okay. Fair enough. Last one for me. Hap, you mentioned the importance of investing in the store and the customer experience. As you think about your increasing role, in the landlord needing to play a bigger part in creating that overall environment, are you committing more capital or looking to commit more capital along this front which may not necessarily be able to immediately contribute a return through the longer term; it's going to benefit this center and therefore your ability to both routine and source new tenants as you need it.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Well, number one, as part of our – obviously, our large-scale redevelopments and even our tactical redevelopments that they are Fresh Look philosophy where there's a tremendous emphasis on merchandising and on place-making. They're going to distinguish the look of those things they appeal, those shopping centers to the communities and neighborhoods that they serve. So I think that's important. But we've got an ongoing maintenance program and in that ongoing maintenance program, we're very focused on place-making and ongoing leasing and merchandising is critical to that. So that's part of the way we do our business each and every day. And we feel really good about the way our shopping centers are distinguished and we continue to focus on how to keep them relevant.

And we're also I think our view is that we've spent between 10% and 11% of NOI on from a tenant improvement white box, ongoing business building improvement standpoint, and think that, that number is still good and together with the redevelopments both tactical and major will keep our shopping centers looking fresh and relevant to our communities.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Thanks for the time.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thank you.

Operator: Our next question comes from the line of Ki Bin Kim with SunTrust. Please proceed with your question.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. So you have an interesting dynamic that's going in your development pipeline, you might have about $280 million of pipeline, but if I look at the percent leased and think about the dollars at risk, there's really not much because a lot of it has been leased pretty well. It clears up your pipeline or your development capability for next year. You also mentioned that a lot of these other bigger projects in your opening remarks. So I'm just trying to get a sense of how much do you think you will start next year.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Sure. I'm happy to take that. This is Mac. While we haven't given formal guidance yet on our development starts for next year and we will be doing that in the near future. But you are right, the developments that we have that are underway are performing very well at 80% leased; we're very happy with those. And it allows us to use our expertise to work on some of these longer term redevelopments. And I touched upon several of those in our opening remarks.

I'll just give an example, Westwood Shopping Center, which is a center that came over with Equity One. In about a year's time, we should be ready to start that project and that is very promising. It's a mixed use project with retail. It's got approximately 200 apartments and some townhomes to it. And these are complicated projects and not every company is capable of doing this, but we think we have the team and the expertise and the market knowledge to take this on.

So, we're bullish about that. We'll eventually give guidance on where we think we'll be, but over – over a long term, which is really the right way to measure our contribution, it's not a year-to-year business, it's always going to be lumpy, but we think we're on track to hit our five-year target of $1.25 billion to $1.5 billion in start, and then deliveries would come with that too as well. So, hopefully that answers your question.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yes, it does. I think about the Bethesda project. That by itself is probably very sizable You guys started about $200 million this year, I mean, I guess, just directionally, it does feel like it could be a lot more in the next year or so. Is that – am I thinking about it correctly?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

I think directionally, you will see a still more redevelopment as a percentage of our total investment than we have in the years past than it was seven years, it was more ground up as compared redevelopment. And I think that's switching and we're agnostic to the two, in fact, we like the flexibility, the optionality that redevelopment gave us. And so, I wouldn't necessarily say more but I would say the mix between ground-up and redevelopment is shifting more towards redevelopment, and we're very pleased with that. And these are larger properties that we own.

And then Town and Country, it's the one new one to that. And we're coming into a partnership on that property, which is a terrific property located across the street from The Grove, and we've mentioned that before. But that allows us to bring our expertise to a family, to enter into a family partnership, and to add some density to that. And ultimately, that will be one of our marquee properties across the country, and we're very pleased with that.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And just last question.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

[indiscernible] (00:40:07).

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Go ahead.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. For the last question, on Sears-Kmart, I realize you don't have much direct exposure, but how do you think about the tangential exposure just from the amount of supply that might hit the market and how that impacts your portfolio?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

In general, space is space and has an impact but we think, and we feel real good about our locations, about our anchor tenants, about the team's focus. And we re-leased virtually all the space it's coming back to, the anchor space it has, I think that's indicative to say it doesn't have any impact but we believe that, as Lisa said, that we can generate in effect 2.5% from an underlying NOI growth standpoint for redevelopments.

And we think over time that redevelopments are going to contribute additional 50 basis points to 100 basis points. And we've got the team in place. The commitment, let me just say in regard to the redevelopments, it's kind of become the topic de jure. And this has been an integral part of our business historically.

And we've got the team in place in the markets to make these projects happen as Max said they can be complicated, they can be difficult. And we don't even view the tactical ones, right, because as I indicated earlier, it's just an opportunity to refill a box etcetera. It's an opportunity to further distinguish the look of our shopping centers for the long term.

And just to reiterate what Mac said, I think we're very well positioned to achieve the $1.25 billion to $1.5 billion of development starts. And to average, as Lisa said, 3% same property NOI growth, even in a market where there's going to be additional store closings.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay, thank you.

Operator: Our next question comes from the line of Rich Hill with Morgan Stanley. Please proceed with your question.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning, everyone. I wanted to maybe just go back to the properties that you're buying and selling. Maybe we can talk about the properties you're selling first. Could you provide any more color as to what's maybe making those less attractive and trade at wider cap rates? Is it the location? Is it the type of grocery store there or the overall tenant mix? What is making that less attractive to you? Or maybe you want to work it into something that's so-called higher quality?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Sure thing, Rich, this is Mac. If you just look at page 15 of our supplemental, you can start to pick up some things here from the set of properties. It's a Winn-Dixie anchor. It's a Bealls-anchored center. It's a theater-anchored center. There are two larger projects that are really big-box centers. The one in Indio is unanchored, shadow-anchored by Home Depot and Winco.

So it's not the typical Class A infill grocery-anchored centers that we own, and we feel that these properties were ready to be sold. These were prioritized dispositions for us. They were ready to be sold, they were widely marketed and they cleared.

And it's the type of center that I mentioned, the set, the tenants are there, but it's also the location too. These are smaller markets. And if you dug into the demographics, they are lighter than our typical property. They're on the low end and they're typically lower growth, and people are paying for growth. So all those characteristics contribute to the pricing, and we feel that the pricing was correct. These are really outliers in many ways.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And so it looks like your buys and sells have been fairly similar this year, at least in terms of number. But you also mentioned that it's hard to find the high-quality properties that you want to own. Do you think there are more low-quality properties to go for you to sell or, as you just mentioned, is it really just an outlier? I guess what I'm asking, do you think there's more opportunity to see more portfolio rotation at this point in time, or is it becoming harder just in availability of higher-quality properties?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Being able to...

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

We have been...

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Go ahead, Mac.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Go ahead, Hap. Go ahead.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Being able to find good uses of capital is an issue. Being able to do transactions on a tax-efficient basis is also important. But the other key thing is we don't have to sell properties. We're in a position where those properties that have the characteristics that Mac just described are meaningfully less than 5% of our portfolio. So we're in a position to sell when it makes sense to sell when we have the appropriate use of funds and we can do it on a tax efficient basis.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Got it, and just one more follow-up question if I will. Are there any examples where you can take out so-called 7.9% property and put money into it and make it a 4.9% property? Does that exist, or is that just not a good use of your funds in your opinion?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Where we can do, where we have an opportunity to do that, we do that each and every day. That's a key part of our business, and we've been doing that for years. And these redevelopments represent a lot of those where we're transforming the properties that we have.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you, guys. That's really helpful.

Operator: can get out and really help. Our next question comes from the line of Michael Mueller with JPMorgan. Please proceed with your question.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Hey, good morning. I thought I got out of the queue. My question was the prior question on about how much of these 7.5% – 8% cap of properties are left in the portfolio. So I think you said it was about...

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Mike, I don't know that we actually answered the question. So I will point you to our investor presentation, where we have about 2% that we consider non-core, and think about, again, remind you of our funding strategy. So free cash flow is going to fund our development spend. To the extent that we are short, we are going to work and do not have access to the equity market because it's not a compelling price at the time, we will use dispositions for that, and it will come from that 2% bucket.

And if you do, to give a little bit more color, on page 15 in the supplemental, if you look at those, there's not a single one on here that we went out and bought individually. It either came in the package of a portfolio acquisition. And a couple of them were legacy developments, and we were building much larger power centers back in the late...

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

From a margin development standpoint.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

From a margin development standpoint, which we do not do today.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

So basically at that 2%, the portfolio was gone and we're looking in the supplemental, the disposition cap rates wouldn't be 7.5% or higher?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

I think that's a fair assumption.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Got it. Okay, that was it. Thank you.

Operator: Our next question comes from the line of Chris Lucas with Capital One. Please proceed with your question.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Good morning, everybody. Hey, just a couple of quick ones. Lisa, on the implied guidance for fourth quarter, the $0.03 spread between $0.91 and $0.94, is there any one item that causes that spread, or is it just a myriad of factors that you're unsure about going in?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Same-property NOI is a big driver, obviously. And although our guidance is 3.25% plus or minus, it could be plus or it could be minus. And Sears is a big driver of that as well, depending upon when – if we get November and December rent, and that is one of the largest drivers.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Okay. And then just following up on that topic, the Mattress Firms you've had rejected given the likely scenario, the plans they're going to come out, I think they want to get out of bankruptcy this year. You'll get paid what for those rejected leases?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

It's still – I'm a little hesitant to say that I'm certain what's going to happen. So our understanding at this point is we are going to get paid for them for up to a year. But again, I think...

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

A year from when they filed.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

A year from when they filed, but I think that it's more to come. But right now, that is the assumption.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

But bankruptcy is an uncertain process, and we've incorporated that into our projections.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Right. So just that I have this one clear, you're saying that you could get up to a year, but it would be a year from now that you would get paid or when they come out?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

I don't know that we really know when – and that's part of the uncertainty as well. But the early indication is that we will get up to a year's worth of rent.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Whether that's from when they filed or whether that's from when they're coming out, we still don't know.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Okay. And then as it relates to Sears in terms of the guidance you provided earlier in the drag to same store NOI for next year, does that matter as to whether that's a Chapter 7 or a Chapter 11 liquidation or just a rework and what are you guys assuming?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

No, that won't matter. What matter is whether or not we actually – whether someone assumes and buys the lease or if we get it back.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Okay, great. Thank you, I appreciate it.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thank you, Chris.

Operator: Our next question comes from the line of Samir Khanal with Evercore. Please proceed with your question.

Samir Khanal
Analyst, Evercore ISI

Q

Good morning. I just had a question on the leasing spreads for new deals. It was up 35%, but it didn't look like you put in a lot of CapEx. Certainly, if you look at the CapEx per term in the quarter v versus maybe the trailing 12 months, actually it fell. So I just want to know what was going on there.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Samir, it was initially that it fell with the volumes. What that represents is really the driver there was Publix at our Bloomingdale redevelopment. That particular deal is a tear down rebuild, so what you had was less what we call TI and white box and it's really rebuilding a building. So, that artificially dampened that number. If you took public out on that, we would normalize at $30, which is right in line.

Samir Khanal
Analyst, Evercore ISI

Q

Okay, got it. And I guess my second question is, just regarding your NOI guidepost, that low- to mid-2% range for 2019, I mean, how are you guys thinking about sort of credit loss reserves for 2019 versus this year? How much cushion do you have built in for maybe other distressed retailers besides the Sears and Mattress Firm of about a 50 basis points downtime?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Again, that's not formal guidance. So, we will come back to you in early part of next year with more formal guidance. But Sears is obviously incorporated in there, as I indicated in my remarks, up to 50 basis points.

Samir Khanal
Analyst, Evercore ISI

Q

So, at this point, beyond Sears, you're not incorporating any other...

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

We have, Samir, while – yes, of course, we always do. And even though bad debt expense doesn't exactly translate to how much we're incorporating into a credit collection loss if you own typical underwriting, we've been around the 45 basis points, in the 40 basis points to 50 basis points range in bad debt expense. So I think that that's a good indication that we've had a pretty normal and steady rate of move-outs, if you will, in bankruptcies and store closures, and we would expect something similar next year.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Yeah. Business...

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

...on top of Sears.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

We're incorporating – our current thinking is incorporating our normal amount of issues. But at the same time, we're also incorporating that the underlying business is good. Leasing spreads will remain healthy. We're seeing strong demand for space. So, we feel good about the underlying fundamentals of the business and our ability to continue, take the Sears bankruptcy aside, the 2.5% underlying same-property NOI growth that Lisa described earlier.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

And I think my prepared remarks directly hit that and also there is even some – it's also implied. If you go back to the roadmap again of 1.3% contractual rent steps and then another 1.2% from rent lease spread that gets you to 2.5%. And I just told you that we're expecting and incorporating up to 50 basis points of Sears and we're still saying we're going to be in the 2% to 2.5% range.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Yes.

Samir Khanal
Analyst, Evercore ISI

Q

Yes. Okay. Thanks.

Operator: Our next question comes from the line of Vince Tibone with Green Street. Please proceed with your question.

Vince Tibone
Analyst, Green Street Advisors

Q

Good morning. I have a clarification question on the Sears closures. Are you going have to bid for those leases at bankruptcy auction?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Jim, whatever.

James D. Thompson
Executive Vice President-Operations, Regency Centers Corp.

A

That's a bit of a problem. We don't know. We're on a closure list. But there's no telling how Sears will – whether they'll try to sell their leases before they reject. We just don't know at this point. In our planning, we are preparing to defend our real estate.

Vince Tibone
Analyst, Green Street Advisors

Q

Got it. Okay. But at this point they're still paying rent and the lease is still in place...

James D. Thompson
Executive Vice President-Operations, Regency Centers Corp.

A

Yes.

Vince Tibone
Analyst, Green Street Advisors

Q

...until further notice.

James D. Thompson
Executive Vice President-Operations, Regency Centers Corp.

A

Right.

Vince Tibone
Analyst, Green Street Advisors

Q

No, that's helpful. Thank you. Can you just talk maybe a little more broadly about the pros and cons of buying a lease in bankruptcy auction versus letting a new tenant purchase a below-market lease?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Obviously, we evaluate every aspect, and I would say during Toys 'R" Us, we evaluated a deal in Chicago where it was at auction. We were prepared to bid if needed. We get our homework, understood who was interested in the space and felt comfortable with that user and felt the economics of no downtime, protecting rent was a good alternative to us jumping in and protecting the real estate. So it's a one-off thing we evaluate on every space that's in place.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

And, Mac, you might just review kind of what we did with Hagan because it was a combination of working with replacements to Hagan, buying leases, and some of them go and coming back to us on that date.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Before Mac does, the individual examples, I mean, the biggest thing is the pro is it gives us control of the real state, allows us to control the merchandising; and in often cases, which Mac is going to talk about, allows us to unlock a lot of value.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Right, right.

Vince Tibone
Analyst, Green Street Advisors

Q

Is that good for the lease causes or the...

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Well, you may change the use events and upgrade the use, but you also, by wiping out that former lease, you may get rid of some restrictions that have to do with competing uses, exclusives, co-tenancy, parking requirements. Sometimes these older leases are just outdated with how the market works. So you get a fresh start and they're generally at a reasonable price. The pros heavily outweigh the cons and you take some leasing risks, you're not going to have it pre-leased. But we're in that business anyway and we have a good feel for that and we factor that into our pricing. So net-net, it's usually advantageous for us to buy a leaseback.

Vince Tibone
Analyst, Green Street Advisors

Q

That's really helpful color. Thank you. That's all I have.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thank you.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Thanks.

Operator: [Operator Instructions] Our next question comes from line of Linda Tsai with Barclays. Please proceed with your question.

Linda Tsai
Analyst, Barclays Capital, Inc.

Q

Hi, yes. Does having a Kmart box versus having a Sears give you more...

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Linda, we can't...

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

We can't hear you.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

We can't hear you.

Linda Tsai
Analyst, Barclays Capital, Inc.

Q

Oh, sorry about that. Hi. Does having a Kmart box versus having a Sears give you more flexibility given the size, and maybe in terms of backfilling more easily with the tenants versus having to redevelop?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

The reason I comment specifically that they were Kmart versus Sears was just exactly that the size of the box. And they're in your typical neighborhood community shopping center. So, there's not a whole lot of densification opportunities at those.

Linda Tsai
Analyst, Barclays Capital, Inc.

Q

Okay. And then in terms of the 35% increase in new leases, can you give us a sense of what percentage of your anchored increases are considered legacy?

Mike Mas
Managing Director - Finance, Regency Centers Corp.

A

Linda, we can't give you that percentage. This is Mike. But we do have, as we indicated at our Investor Day, we have 40 leases that we call "legacy leases" that are available to us in the upcoming, say, five-plus years. And those are the leases that were – are going to really drive this top line rent growth metric.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

And even – it's pretty interesting in that even in a portfolio of our size. I mean it doesn't take much for it to really move the needle because there's such large increases with these legacy anchor leases.

Mike Mas
Managing Director - Finance, Regency Centers Corp.

A

And they control the space for a significant amount of time.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Yes.

Mike Mas
Managing Director - Finance, Regency Centers Corp.

A

The key thing as far as the health of the portfolio and the relative strength and the sustainability of the portfolio I think is the same-store rent spreads that we're experiencing 12% on the shop space.

Linda Tsai
Analyst, Barclays Capital, Inc.

Q

Thanks. And then a lot of your peers are using technology and data to better understand shopping habits and help make location decisions. To what extent are you engaging in these initiatives, too?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Linda, I'm happy to answer that. Lisa, do you want to take that?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

No.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

This is not a new thing for us. We've actually been at the forefront of using technology to help us with merchandising to target actual customers by using massive mobile data to track where our customers are coming from. And we've actually been piloting – we probably have over a dozen different technologies over the years and actually have helped companies create the technology by working with them closely.

So, we're using it for better merchandising. We've been able to convince tenants that our sites make sense by showing them where their customers are coming from and using technology that they don't have in-house, and it's been eye-opening for them. And that's really helped us.

And then the future really is using this technology to actually target customers coming on to our property through advertisements, through mobile phones. And that's in the early stages of it. But we're spending a fair bit of time on this, and the industry still has years to grow up, but it's not a new thing to us. We've been following this for many, many years.

Linda Tsai
Analyst, Barclays Capital, Inc.

Q

Thanks.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thanks, Linda.

Operator: Our next question is from Christy McElroy with Citi. Please proceed with your question.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks for taking the follow-up. Just on Mattress Firm, I know that there is the initial closure list. It's all very fluid. There's more that's potentially coming. Just you've got 5 boxes closing, 20 boxes remaining. On the 20 boxes, as they sort of work through the process and potentially emerge here, are they trying to negotiate rent relief on those 20 boxes remaining or is it still sort of up in the air?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Christy, as any good bankrupt tenant will do, they will absolutely ask on every location which they did here. We've been firm in our responses. I think the average AVR is $33 on ours. I think they're located centers that are 96% leased. They generally took very good real estate, high visibility, high access. So that's where we felt very good about being strong by recapturing real estate. When asked, we said no. And the 5 boxes may turn into 7 boxes or 8 boxes, but at the end of the day, we will proactively re-lease those boxes with a smile on our face.

James D. Thompson
Executive Vice President-Operations, Regency Centers Corp.

A

Just say no.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then just on – following up on some of Ki Bin's questions, you guys were talking about Westwood a bit. Any sort of early estimates you can give us in terms of the potential for capital commitment on this project? Is this something that you would be maybe working with partners on any non-retail component? And would this project stay in the same-store pool?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

So I could touch on the first part of that. Plus or minus $75 million is what we circle for investment in that, and we would own all of the retail. We are negotiating with a partner where we would take half of the apartments, 50% interest and that's included in the $75 million. There's also approximately 75 townhomes which are a for-sale product and we're going to provide some of the capital for that. But that's not a long-term hold as I mentioned.

So – and Lisa can talk to you about the big picture of what's in and out of that, but we're excited about that project. It should have a return of O in the high 6s. It's what a stabilized return is and it's going to be a dynamite project for us.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

And just in both cases on the townhome and multifamily developer that we're negotiating with and both are best-in-class and both will have a meaningful amount of capital invested on their share of those portions of the development.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

At this point in time, with the earlier head knot of the 2% to 2.5%, we are assuming that less would stay in our same-property pool. But it's a great question as we really do have larger projects that we're beginning to work beyond, a scale beyond what we've had in the past.

We've got another one that it's in our pipeline in San Diego in Costa Verde. It's over $5 million of NOI and we may essentially take that to zero as we redevelop it. So, it's something that we're evaluating and we'll have more clarity on how we will handle those larger projects in the future. But for now, Westwood is assumed to be staying in the same-property pool.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then is Giant staying at the project? Has that been resolved?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Giant is staying. We're going to be...

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

They will be...

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Sorry to interrupt. Giant is staying. We're going to relocate them and put them into a brand new store in a podium format with parking below them.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay, thank you.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thank you, Christy.

Operator: Thank you. It appears we have no further questions at this time. I would now like to turn the floor back over to management for closing comments.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

I really appreciate your time and interest in Regency and wish that you all have a wonderful weekend. Thank you very much.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.