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REG - Q1 2020 Regency Centers Corp Earnings Call

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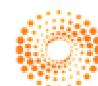

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CORPORATE PARTICIPANTS

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Brian Michael Hawthorne *RBC Capital Markets, Research Division - Senior Associate*

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

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

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

Floris Gerbrand Hendrik Van Dijkum *Compass Point Research & Trading, LLC, Research Division - Analyst*

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

Linda Tsai *Jefferies LLC, Research Division - Equity Analyst*

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

Ronald Kamdem *Morgan Stanley, Research Division - Research Associate*

Shivani A. Sood *Deutsche Bank AG, Research Division - Research Associate*

Tamara Jane Fique *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

PRESENTATION

Operator

Greetings. Welcome to Regency Centers' First Quarter 2020 Earnings Call. (Operator Instructions) Please note that this conference is being recorded. At this time, I'll turn the conference over to Laura Clark, Senior Vice President, Capital Markets. Ms. Clark, you may begin.

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

Good morning, and welcome to Regency's First Quarter 2020 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.

As a reminder, today's discussion contains forward-looking statements about the company's future business and financial performance. These are based on management's current expectations and are subject to risks and uncertainties. Factors and risks that could cause actual results to differ materially from these statements are included in our presentation today and in our filings with the SEC. The discussion today also contains non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, all of which are posted on our Investor Relations website.

I will now turn the call over to Lisa who will address Regency's key priorities in light of the COVID-19 pandemic. A presentation providing additional information regarding COVID-19 business updates and impacts is posted on our website. Lisa?

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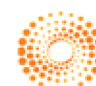

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Lisa Palmer - *Regency Centers Corporation - President, CEO & Director*

Thank you, Laura. Good morning, everyone. The last couple of months have been an experience that none of us could have ever imagined, nor one that any of us will ever forget. I hope you are all well. I know several of you who have been personally impacted during this challenging time, and our thoughts are with you.

Our thoughts and appreciation are also with those on the frontlines. Health care workers, public safety officials, first responders, delivery drivers and to name many more of the employees of the many retail businesses that continue to provide our country with essential goods and services, all are working so courageously to serve, protect and provide for all of us.

During this pandemic, Regency has been dedicated to ensuring the well-being of our team members, tenants and the people in the communities that our properties serve. We are fortunate to have the resources and systems in place to allow our teams to work remotely. At the same time, our property and asset management teams have continued to respond appropriately to any on-site tenant requests. I'm extraordinarily proud of how everyone at Regency has responded. And I'm especially proud of the tireless work performed by our property management teams. I thank all of you.

As with any major disruption, how well you are positioned at the beginning of that disruption is so critical. Those companies positioned in strength will have a significant advantage to emerge successfully. At Regency, we have worked diligently and thoughtfully to build a company that can withstand challenges and adversity through the strength of our unequaled combination of strategic advantages, which have never been more relevant than they are today: our people, our portfolio, our development program and our balance sheet.

Our portfolio. A focus on necessity, service, convenience and value. More than 80% of our national portfolio of neighborhood and community shopping centers are anchored by a grocery store with another 10% that include a mass merchandiser, like Walmart or Target, a national drugstore or a home-improvement store, such as Lowe's or the Home Depot. Our local teams, 22 offices throughout the country, have been working diligently with tenants and vendors, enabling all of our properties to remain open and operating, allowing our tenants to continue to provide the goods and services that the surrounding neighborhoods need.

In fact, in April, approximately 60% of our tenants were allowed to operate in some form, including categories such as grocery, drug, banks, restaurants, pets and office supplies. The remainder of our portfolio is occupied by many best-in-class high-credit quality retailers, such as TJX or Burlington as well as many other retail and service providers that are anxious to reopen. We also benefit from a pipeline of high-quality developments and redevelopments that our talented investment team have structured to provide us with timing and financial flexibility, affording us the optionality to either continue to move forward during this time or to pause, positioning these projects for future value creation over the long term.

Lastly, but certainly not least, one of Regency's greatest advantages is our extremely strong balance sheet featuring low leverage, a low payout ratio with a highest level of free cash flow in the sector, liquidity to satisfy our commitments and thoughtfully manage maturities. This intentional positioning is a key element of our strategy and maintaining this financial strength is of critical importance.

Considering the possibility that we may still be able to maintain the current dividend even beyond this quarter, given the benefit of our solid financial position, our Board approved full payment of our dividend at the rate of $0.595 per share. That said, over the coming months, management and the Board will carefully monitor the extent and success of the opening of the country and economy, consumer behavior, retailer performance, actual Regency results and our view of future rent selection and NOI. And even though we recognize that there may still be uncertainty when we have our earnings call with you in August, we should have a much better view of the impacts from the pandemic and the recession on our company.

I want to emphasize that the resulting future major decisions will be very deliberate. This concludes the decisions related to the level of the quarterly dividend, where we must and we will weigh near-term liquidity and balance sheet metrics with future expectations for Regency's portfolio, including preserving our financial strength to best position us for achieving our strategic objectives and sustained outperformance. None of us could have imagined the current challenges facing our country, the economy, retailers in the shopping center business. But even in this environment, I'm firmly convinced that Regency will not only successfully weather this crisis and navigate the bridge to the new normal but also will thrive in the post-pandemic world.

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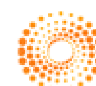

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My belief goes back to the strategic advantages that Regency is built: high-quality necessity and convenience focused portfolio, our value-add asset management and development capabilities, the strength of our balance sheet and liquidity position and our unparalleled team of experienced professionals. In this, my confidence is unwavering. Jim?

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

Thanks, Lisa. Before I get into the details around COVID-19 impacts, I think it is important to quickly touch on the solid first quarter momentum we experienced before the pandemic began.

First quarter leasing and base rent growth exceeded our expectations. While leasing activity has clearly been impacted by the COVID situation, we have still been able to execute a number of renewals over the last 2 months and are continuing to negotiate new leases with numerous tenants. Many anchor tenants such as Publix, Target, Wegmans and TJX as well as drug stores, medical uses and banks, continue to pursue new deals during this time. We are already seeing activity pick up in those markets where shelter-in-place guidelines are being relaxed, and we are confident that leasing activity will increase once we have further clarity on reopenings across the country.

As Lisa mentioned, the top priority for our asset management teams continue to be maintaining the safety and well-being of our team members, tenants, properties,and the customers in our communities. All of our properties have been open and operating for the entirety of the pandemic. In addition to reaching out to each of our 8,000-plus tenants and continuing to safely make regular on-site business to properties, our asset management group has also set up our tenant-assistance website. The site includes resources that our tenants are able to leverage as well as direction on how they can access and apply for government or other assistance programs.

We recently hosted a webinar that hundreds of our tenants attended, providing further information on Regency's plans to help tenants successfully and safely reopen their businesses. As of the end of April, approximately 40% of our tenants were closed, although we anticipate within the next 30 days to see many of those retailers begin to implement plans to reopen as mandated closures are lifted. We collected 62% of our pro rata base rent for the month of April. This includes a collection rate of over 90% from tenants deemed to be essential, which represents nearly half our pro rata ABR. April collections for restaurants, which represent approximately 19% of our total ABR, was 41%.

And finally, the April collection rate for other retail and service categories, which represents a little over 1/3 of our annual ABR, was 37%. Given the ongoing uncertainty in the marketplace and extent of future impacts, we remain in the early stages of working with tenants on potential rent deferral plans to help our retailers, especially those that have been totally closed for a period of time, allowing them to focus on reopening and start to rebuild their customer base. We recognize that Regency's success, as it always has been, is tied to our tenants. So we aim to work with our retailers, understanding their needs while being mindful of our contractual rights and long-term strategic objectives.

As mandates are lifted and we begin to help our tenants and centers transition into a post-COVID environment, our teams are prepared to make adjustments to the operation of our centers, such as facilitating more buy online and pickup areas, adding hand sanitation areas, installing social distancing signage reminders and prohibiting the use of certain common areas until they are deemed safe for all customers.

Just as Regency's team and portfolio has successfully navigated through various cycles and disruptions over history, our teams are well equipped and doing everything we can to help our tenants and properties prepare to recover as successfully and quickly as possible. Mac?

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

Thanks, Jim. We continue to have confidence in our ability to create long-term value through disciplined development and redevelopment. That said, given the current environment, it is prudent to reassess the scope, timing and projected investments on each of our in-process projects as well as our extensive pipeline. We realize the importance of reevaluating our projects to determine if modifications may be necessary as we think about the future needs of our retailers and their customers, including potential changes to design and formats.

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At the end of 2019, we had approximately $350 million of developments and redevelopments in process, with nearly $225 million remaining to be invested. Since the onset of the pandemic, we have diligently reevaluated future timing and scope for each of these projects. As a result of this process, we intend to finish construction on those projects that are nearly complete as well as those where we have lease in city obligations. We will invest approximately $80 million to complete these projects. We are also fortunate that at a select number of other projects, construction was at a point where we were able to pause without experiencing material impacts to our long-term value creation. This has allowed us to selectively defer investment of approximately $145 million of in-process commitments.

For the projects continuing construction as planned, including the village at Hunter's Lake in Tampa and Point 50 in Fairfax, Virginia, the scope and costs are essentially unchanged. For other projects like Carytown Exchange in Richmond, the Abbott in Harvard Square and Market Common Clarendon in Arlington, we intend to phase our investment in these projects, providing us flexibility as we determine the most appropriate future direction. A Culver Public Market in Los Angeles and Serramonte Center in the Bay Area, where we have not yet started vertical construction, we have suspended activity to allow for more time to study and potentially phase these projects. Investments like these require more material reconsideration for tenancy, scope, timing and return on investment, given the impact of the ongoing response of COVID-19 pandemic. We will be certain to update you on our revised plans as soon as they become more clear.

We are also thoroughly reviewing our near-term investment pipeline and we'll continue to position these opportunities to start while preserving optionality in order to best manage our near-term commitments until we have better visibility of our free cash flow. We are fortunate to be in a position to continue moving these projects forward, while we assess the timing and scope of our plans. This includes projects, such as Westbard Square in Bethesda and Costa Verde in the UTC market of San Diego, where we remain excited to start these projects when the timing is right.

It's important to note that these projects are major redevelopments of existing owned shopping centers. Any deferred timing of our incremental investment is mitigated by our ability to maintain NOI from the existing roster of tenants. We continue to have conviction in the long-term value creation opportunities afforded by these exceptional locations. But at the same time, I understand that these investments require patience and discipline, 2 cornerstones of Regency's proven investment strategy. Mike?

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

Thanks, Mac, and good morning, everyone. I'll start with our first quarter results where we were off to a good start for the year relative to our initial expectation. While not indicative of expected full year results, I do think it's important to know that the operating environment was quite healthy. However, after reserving for open receivables, as a result of the pandemic, same-property NOI growth for the quarter came in at negative 70 basis points.

As noted on our last earnings call, we did plan for a negative first quarter growth rate, driven by bankruptcy-related move-outs, but still our underlying results were better than those expectations. However, as many of you are aware, GAAP requires that we reserve for any receivables we're collecting the entirety of the lease obligation is less than probable. Given the current environment, we reviewed all receivables with emphasis on nonessential tenants, restaurants, local tenants, tenants that did not pay for rent and all watch-list tenants. Any receivable that was less than probable was reserved, and we will recognize income as those amounts are received.

This resulted in a bad debt charge to same-property growth in the quarter of approximately $2 million above what we originally planned. Relatedly and as required by the standard, the change in collectibility expectations for certain tenants also resulted in a reversal of the related noncash straight-line rent of approximately $3.5 million. We will continue to evaluate our collectible -- our uncollectible lease income reserves as the current situation evolves.

Now to the balance sheet and our liquidity position. Over the years, we have committed to a rigorous set of principles in order to maintain balance sheet strength and flexibility, highlighted by low levels of leverage, maximizing free cash flow, access to liquidity to meet our needs and a well-laddered maturity profile to reduce risk. As a result, we are very well positioned from a balance sheet and liquidity standpoint as we pivot towards mitigating the impacts from the ongoing response to this health crisis.

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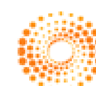

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During the quarter, we took several steps to further solidify our position, including settling our forward equity offering and drawing down on our revolving credit facility. These actions, when aggregated with property sale proceeds that closed during the quarter, positioned Regency with a cash balance of $735 million, which when combined with undrawn capacity, provides total liquidity of approximately $1.3 billion. While protecting and enhancing our liquidity position, we are also carefully managing all future capital requirements, including development spend, property-level expenditures as well as G&A and dividend payments, as mentioned earlier by Lisa.

Importantly and to amplify what Lisa said, we will closely monitor the ongoing impact of the pandemic response on our cash flows, and future dividends will be subject to our ongoing comfort with our liquidity position, our leverage ratios and our taxable income forecast. Lastly, as we previously announced, we withdrew our 2020 guidance due to the extreme uncertainties of the impact of the COVID-19 situation. We look forward to providing guidance again when we have greater clarity around reopenings and the impacts to our business. We understand the need for timely information in this rapidly changing environment and are committed to being as transparent as possible.

To that end, as we did in March, we will provide material mid-quarter business updates, if warranted. That concludes our prepared remarks, and we now welcome your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from the line of Christy McElroy with Citi.

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

My first question is for Mac. Just following up on some of your opening remarks. In thinking about just the construction pipeline and understanding you're deferring $145 million of CapEx. Assuming for now, that's just sort of pausing and pushing out that spend and extending the pipeline, to what extent will you revisit that to potentially permanently reduce the scope of those projects and reduce that plant spend and those projections? And given that you've removed some of the yield projections, what impact should we expect these delays and interruptions will have on those yield projections ultimately?

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

Thanks, Christy. I'd say we're going to revisit that pipeline continually. It's still very early in the process. And as visibility becomes more clear, we'll reassess these projects. And as we mentioned that has to do with tenancy and timing and scope and our ROI. So it's a little bit too soon to say when these projects will come back in line, and in some, we elect not to pause but to stop. But I think at this point, we very much believe in these projects. We believe in the locations and the concept. And we think, long term, they're going to be terrific projects. So at this point, we just need to take a little more time to study these projects. So I can't give you a whole lot more clarity at this point, but we're constantly revisiting those. And we'll know more as the quarters come by, we'll be sure to update everybody.

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

Okay. Question -- second question is for Mike. You've started to become obviously more conservative already in evaluating the collectibility of your leases. What percentage of the -- of your ABR did you convert to cash basis as of Q1? And maybe you could provide a little bit more color on how you'll be further approaching this process as you think about the accounting for 2Q in this environment?

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

Thank you for the question. I think it's a little too early to respond to that, your first part of your question, how much did you convert to cash basis? What we did at the end of the quarter was really about those receivables that were on our books at that point in time. And using April, the April reaction to the health crisis, to inform our assessment of profitability. So it was simply -- our probability of collections has decreased for a certain segment of our tenants as of March.

As we move into the second quarter, I think that's where the relevance of your question will come into play, and there's still a lot to be determined there. As we work through the progress of opening up, as we work with our tenants on lease modifications to the extent they're necessary and the context of all of those discussions and those agreements will inform us as we think about how the standard applies to revenue recognition. And you hit the nail in the head, some of these modifications will continue to result in accrual accounting, some will be converted into cash basis, and it's on us, and we'll do the best job we possibly can to inform you and all of our investors and stakeholders in that impact going forward.

Operator

The next question is from the line of Greg McGinniss with Scotiabank.

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

So I'm seeing a few somewhat dire reports on the potential fallout of retailers due to the pandemic, primarily in apparel, specialty retail, restaurants. I'm just curious what your exposure to bankruptcies have been thus far this year? How your watch list has evolved through the pandemic? And what steps you're taking to try and mitigate any potential fallout?

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

Greg, I'm sorry, maybe a little bit of a broken record on too early to tell. And in fact, it is. I think really from a high level, nothing has really changed with respect to our watch list. The sizing of our watch list is about the same as it has been. It's been less than 5% of our ABR identified. Do we anticipate that there could be some acceleration in tenant failures and bankruptcy filings? Absolutely. This is an environment that will certainly result in that. But we haven't added any one of significance to our watch list in some time, and I don't think the situation has resulted in that occurring just yet.

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

And I think I would add, as I think about the part of retail real estate that we operate in, I think it's best positioned. Whatever that post-pandemic world looks like, I like the fact that we are close to neighborhoods and that we have grocery-anchored shopping centers and the quality of our real estate. It's something that was true pre COVID, and it's certainly going to be, I think, even more true post COVID, as retailers continue to focus on having a physical presence, which I think they still need. And if anything that perhaps this has highlighted some of the difficulties and the cost of delivering and picking up and that a physical presence really is going to be critical as part of their overall strategy and being close to the customer and having the best location is going to be of critical importance to them.

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

All right. That's fair. And then, Lisa, are you seeing much benefit from Paycheck Protection Planned loans? I mean, have your tenants been successful in getting those funds? And do they use them to pay rents? Or is it more so just keeping folks employed and then you guys may need to step in and help on the rent side?

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

I'm going to -- I'll let Jim really dig into this, but this provides me the opportunity to give another shout out to our property management team, which Jim ultimately really has responsibility for. So I'll allow him to get into the details. But our team has done -- really has worked really tirelessly since the start of this pandemic, staying in touch with all of our tenants, and particularly those local tenants that don't have access to the capital markets to bridge them through this. And so I'll let Jim talk to that.

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

Yes, Greg, we've obviously spent a lot of time sharing information, educating, and in some instances, really helping some of the local tenants physically fill out the application forms for assistance. We've hosted webinars. So we -- I think we've done a pretty good job of helping local folks get access to that -- those programs. And from a -- I can't tell you exactly what the ratio of folks that have had benefited that program, but I will say that there have been several tenants that basically paid their rent in April due to the fact they were able to access those. So there is indication that, that has worked. As we get deeper into the conversations with the tenants who certainly -- that answer will come into play as far as how we evaluate additional needs that they may require to reopen.

Operator

The next question is from the line of Craig Schmidt with Bank of America.

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

I was just wondering, as the mandates and some of your markets are lifted and nonessential retailers can open. What has been the consumer acceptance of these tenants opening in terms of more discretionary shopping?

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

Craig, it's obviously very, very early. Texas kind of led the charge with May 1 opening. I can give you some limited, what we're hearing from our folks in the field. Number one, I think all the retailers that are returning to work, if you will, very, very focused on ensuring our customers are -- feel safe and are trying to make sure they have a very welcoming but safe environment for customers to return to. So everybody is top of mind to make sure the customers feel good about coming back. I would say, from a restaurant perspective, full-service folks, right now, there is a 25% occupancy. What we have seen, in general, is the full-service guys are just sticking with the -- to go right now, because I think that -- our impression is that they are waiting for a 50% occupancy where it may make more sense to bring their folks back online and make in-room dining more profitable for them.

That's not to say some of the Jersey Mike's and those kind of folks are taking great advantage, and we've seen it here in town at BurgerFi, where they have opened up, they've got people inside. They've got good spacing, and the customer has embraced that so far. Medical, dental, again, cautious, slow reopening. And the one thing I would say in Atlanta, what we noticed was when the salons opened up, the lines, as you can imagine, were out the door. So literally out the door. That is one category that's popped back pretty quickly. Obviously, they're instituting some waiting room protocols, some number of chairs, but they're bouncing back pretty quickly.

The gyms in Atlanta were given the green light. Quite frankly, right now, what we have seen is they're taking a cautious, and I think, correct approach in kind of waiting a little bit to make sure when they come out they've got a real good program, they've got protocols in place. Again, consumer confidence is going to be key really to all of this for the consumer to come back. And that's about all the color I've got really for what I've seen so far.

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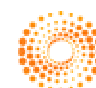

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Craig Richard Schmidt - *BofA Merrill Lynch, Research Division - Director*

No, that's great. It's interesting to see where the priorities lie. I guess one other thing. I was wondering if Publix' somewhat more liberal rent relief program informed any of your rent deferral negotiations with your tenants?

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

Short answer, no. As I indicated in the opening remark, we're in the early stages of negotiation. We're certainly not taking a blanket approach at all. We're being very thoughtful, strategic and targeted. Each tenant will be handled individually. Our goal is to negotiate common ground to get our retailers open and selling goods and services as soon as possible. Fortunately, we enjoy a high-quality platform, and the majority of our tenants performed well on our assets and want to be here. So I think we're both very anxious to get this work done and behind us. And so right now, I would say there's a real nice balance in the negotiation. They want to be there. We want them there, and we're trying to, as quickly and expeditiously as possible, get through any document negotiation.

But conversations to date, I will say, have been productive, positive, and quite frankly, are in line with our expectations.

Operator

Our next question is from the line of Shivani Sood with Deutsche Bank.

Shivani A. Sood - *Deutsche Bank AG, Research Division - Research Associate*

So the Regency team has a history of working with third-party capital, and you guys certainly have a wide pool of capital available to you guys. So just curious how these conversations have trended in recent weeks? Just particularly given utilization of grocery-anchored centers at distribution centers in recent weeks, if there is incremental capital and demand there from some of your partners?

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

Shivani, I appreciate the question. We are -- I'll start with just liquidity from a capital perspective. We're very fortunate to be partnered with some of the largest pension funds in the country: CalPERS, CalSTRS, State of Oregon. And in those long-standing relationships, we have, as you said, access to capital. Our partners, as well, have access to capital. And the plan that Jim and his team is operating to work with our tenants to minimize the disruption to income and cash flow to the best of our ability, our partners are in agreement with our approach. And that has been not surprising to see. I think that's a product of a long-standing relationship between us. So that's been comforting. On the -- I think what you're asking is more a forward-looking product-type question. And I think our -- again, our alignment of interest is there. We -- there continues to be an interest in investing capital in the necessity-based grocery-anchored space, in the private capital markets. And our partners, those that I've mentioned, have consistently asked about continuing investment opportunity together with Regency, given our historical performance. So I'd say our vision of the future of the space, which is positive. And I think there's been no better time to prove out the concept and the relevancy of this product type than now, especially with the essential retail requirement that this country needs. And our partners agree with that, and they believe in that as well.

And going forward, though, I don't know necessarily that our capitalization strategy has changed. And that -- I don't know Regency's plans to add to our portfolio from a joint venture perspective has changed as a result of this environment. We still feel like the portfolio we currently own with our partners is about appropriately sized, and we aren't actively looking to increase that share.

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

But I do think it's also important, and many of you have heard us talk about this in the prior meetings, one-on-one meetings as well as on calls, that we've always -- we value those relationships with our partners. And we always thought of them as long term. And while we haven't needed their

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capital for quite some time now, we believe that treating people right and doing well by your partners may, at some time, pay off in the future. And who knows what the future holds and whether we might need to access third-party capital. And I think the good thing is is I believe, that would be available to us if we so chose.

Shivani A. Sood - *Deutsche Bank AG, Research Division - Research Associate*

That's great to hear. And then in terms of the mortgage debt on specific properties, curious if the 62% rent receipts in April, if that would potentially trigger any revaluation requirements or covenants? I guess, is there anything we should be aware of there?

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

No, nothing to be aware of there. We've been in communication with all of our mortgage holders. In fact, we've actually closed on $225 million of mortgages in the first quarter of this year, and that many of those closings extended into the shutdown in the health crisis. And I have to make a point to appreciate and congratulate our capital markets team, Andrew Mumford, who runs that -- the mortgage business for us at Regency has done a remarkable job, maintaining those relationships, closing on those projects. Our lenders, we appreciate them, living up to their commitments when, in fact, there was an opportunity not to do that. Again, I think that action speaks to our relationships, the value we've created over the past, and importantly, the product type. I think these lenders understand that they're getting into a durable asset class, highlighted by highly productive grocery stores. And at the end of the day, we're happy and comforted to close those loans this quarter.

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

Not this quarter. We closed them this week.

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

This week.

Operator

The next question comes from the line of Richard Hill with Morgan Stanley.

Ronald Kamdem - *Morgan Stanley, Research Division - Research Associate*

You've got Ronald Kamdem on for Richard Hill. Two quick ones from me. The first one is just going back to the dividend decision, just -- would like just a little bit more color on sort of the thought process there. Because, I think, as you know, I think nobody really knows what's happening -- what's going to happen over the next 3, 6, 12 months. But are we supposed to read into that, having seen the April data if things don't get worse? You felt comfortable that the dividend could be maintained at these levels. Obviously, if things do get worse, everything is off the table. But just trying to get a sense of sort of what are the scenarios that were thought through about that decision.

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

Of course. I'm really just going to reiterate what I said in the prepared remarks. And again, I'll go back to something that is clearly part of our strategic objectives and that's positioning our balance sheet to really be able to withstand, and oftentimes, we said the next recession, that we never quite imagined that it would be like this. But we've intentionally strengthened that and positioned ourselves so that we really could withstand some disruption. And it's just -- it's early. It is -- we're really early in this situation and the circumstances that we don't know what will happen over the

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next 3, 6, 12 months. But with that said, we came into this with really low payout ratios, right? Our FFO payout ratio is in the low 60%. Our AFFO payout ratio in the low 70% range. And what that afforded us was a very high absolute level of free cash flow.

We then -- we worked to defer some of our capital spend on our developments. That provides us even more financial flexibility. And we do believe, because we are -- there is uncertainty and so much that's unknown, but there's still a possibility that we'll be able to maintain the current dividend. And so with that said, we were very confident in paying this second quarter dividend. But again, as I said in my prepared remarks, we're going to monitor really closely what happens over the next 3 months. The consumer -- Jim had mentioned it, consumer confidence is such a big part of this and how the consumer behaves. You can open the stores, but if they don't go in, that's going to impact the success of our tenants. And we will be -- we will stay really close to it, and management and the Board are going to manage this closely.

And it's a critical balance because, again, I just said, positioning ourselves to achieve our strategic objectives is critically important. And we're going to have to weigh paying the dividend with that financial strength to ensure that we can achieve our objectives in the future as well and best be positioned to do that.

Ronald Kamdem - *Morgan Stanley, Research Division - Research Associate*

Helpful. My second question was just on going back sort of expenses and -- maybe can you provide some color on how much of your expenses can actually be deferred in some ways or form, right? We're assuming things like property taxes, utilities probably can't. But just how much of those can be deferred? And the corollary to that question would be what level of rent collection is sort of breakeven to cover those expenses?

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

Sure. From an OpEx perspective, listen, we believe we operate a best-in-class shopping center at a best-in-class efficiency rate. So when you really think of -- and then as we mentioned on the call, all of our shopping centers are open in over -- approaching 60% of our tenants that are operating. So when you think about that, the flexibility within the line items of operating expenses, we feel like we're running -- they're more fixed than variable, although we're doing what we can to enhance and provide liquidity to ourselves where we can. Where you can move the needle a little more at the property level on CapEx, but certainly, to the extent the leasing environment slows down, that will result in some savings from a cash perspective. To the extent we have some onetime capital items at the property level, parking lot repair, roof repair, to the extent we can defer that capital in a safe manner, we will; and we're doing that as we speak. But beyond that, from a liquidity standpoint, there isn't -- at the property level, I think that we're achieving our goals.

And really, the needle mover was with respect to our development pipeline and the $145 million that we were able to, in effect, option to the future, which we felt like it provided -- it helped with that confidence Lisa mentioned, as we considered our dividend. Oh, sorry. I'm sorry, breakeven. Second part of your question. Really good question.

So from a -- it's about 50% rent collection on the top line to breakeven before capital. And then after capital, it's roughly around 55%.

Ronald Kamdem - *Morgan Stanley, Research Division - Research Associate*

Got it. That's helpful. I just wanted to thank you guys again for all the transparency and disclosures and everything you provide. I think you're really leading your peers here. We appreciate it.

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

Thank you.

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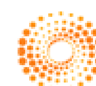

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James D. Thompson - *Regency Centers Corporation - Executive VP & COO*

Thank you. Laura and Catherine do an exceptional job, and we appreciate you recognizing that.

Operator

Our next question comes from the line of Brian Hawthorne with RBC Capital Markets.

Brian Michael Hawthorne - *RBC Capital Markets, Research Division - Senior Associate*

Just one for me. How are you guys balancing adjusting the tenant mix versus kind of trying to work with some of your current tenants or will replace them if -- that you feel it's a better long-term strategy?

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

No -- I think the question wasn't clear. Sorry, can you repeat it?

Brian Michael Hawthorne - *RBC Capital Markets, Research Division - Senior Associate*

Oh, sorry, yes. I'm just kind of asking, how are you balancing -- maybe adjusting the tenant mix where did you kind of see some people that either were attractive and aren't now? Or maybe were ones that you were just kind of waiting to get the space back and replace them? How are you looking at that and thinking about that? Has that changed at all from your previous strategy, pre-pandemic?

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

Yes. Brian, I think we pride ourselves in our proactive asset management. We're constantly, as you've heard us say, we're constantly trying to upgrade the quality of our tenancy, our merchandising. So I think it's our standard playbook. I would say during this pandemic, we may have more opportunity to recapture some space and potentially remerchandise in the future. More to come, but we're always looking to do that.

Brian Michael Hawthorne - *RBC Capital Markets, Research Division - Senior Associate*

Is there anything -- any tenants or any industries, in particular, where you're kind of more interested now in remerchandising than maybe you were before?

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

No, I think it's kind of the known suspects from the watch list. That would be the -- that would be where we would expect in our planning opportunities to arise. And that's -- those are the kind of spaces we're talking to, stronger, better retailers, quite frankly, pre COVID that have their eyes on that space. So that's really what I'd like to tell you on that.

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

Jim is being a little bit humble. We've -- Brian, you're right, if you look at Regency's track record, we've got -- I can say, because I'm not the one that's done it. Jim and the team have done an exceptional job of really, as he said, proactively managing our tenant mix and our merchandising mix and ensuring that we were positioning our centers for the long term. And if you -- retail is always evolving. This is going to accelerate some of that

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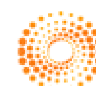

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evolution, no doubt. But we've had users come and users go, and we are continually working to ensure that we have an optimal merchandising mix at our centers. It's really important.

Operator

Our next question is from the line of Mike Mueller with JPMorgan.

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

I guess, putting aside that you have some government exposure this time, can you talk a little bit about how your small shops compare today versus the GFC?

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

I mean, I'm going to let Jim talk to the details. But generally, just thinking about what's happening today versus what happened, I guess, it was 11 years ago -- 11, 12 years ago, it really is apples and oranges. And also, we, at Regency, have significantly -- we made a lot of significant moves since that time in terms of the properties that we sold, really refocusing and having a much more disciplined development program and building properties that we would only want to hold rather than developing to sell. And I think that if you look at Regency today versus Regency 12 years ago, it's just -- we're different. And the quality of our tenant base today is certainly at a much higher level than it was then.

And I think that -- and so with that, when I do -- and I think I have the rough numbers and Jim can talk a little bit more. In fact, in the GFC, we fell to about 92% overall occupancy and 84% shop occupancy, which was one of the highest in the sectors even then. And then layer on top of that, that I think that we've improved the quality of our portfolio, I feel really good about it. But this is a different animal. And there's still so much that's unknown. It's too hard to predict what the end will be. Right now, we feel really good about the quality of our real estate. We feel really good about the sector that we operate in, and we feel really good about the quality of our tenant base. But there's a lot more to come.

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

Got it. And then what triggers do you look forward to potentially repay some of the cash you pulled off the line?

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

Mike, we will -- I think that will dovetail with our assessment of really pulling down the line with a little bit of a reaction in a playbook out of the GFC, frankly. And I think since that point in time, we've become very comfortable with the treasury's response to the potential economic crisis. We feel really good about our capital partners that are lenders to us on our revolver. So I would say that those triggers are probably more about the financial capital markets than what we see occurring in the portfolio. That being said, we're going to give it some time right now. It is a rather inexpensive insurance policy to carry on the balance sheet. At the same time, we are always looking at our debt maturity profile. I think our history and our track record specifically recently would show that we've built a very -- we live by a set of principles, one of which is to win at our annual maturities to no more than 15% of our total debt capital. And we're always looking out 2, 3 years to see -- to be opportunistic and to determine if we can stretch out our maturities and just maintain that safety from a capital perspective. So we're looking at 2022. Obviously, in 2021, very limited maturities. We've taken care of many of our mortgages already. And 2022 is our next target. We'll see how the capital markets evolve from this point forward. They've healed quite nicely over the last several weeks. But it's -- at the same time, you have to be aware, you have to be careful. Every day is a new day in the capital markets, as you know. And we're doing what we can to monitor that activity, and we'll be opportunistic to be keen on if something is presented.

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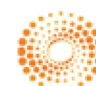

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Operator

Our next question is from the line of Floris Van Dijkum with Compass Point.

Floris Gerbrand Hendrik Van Dijkum - *Compass Point Research & Trading, LLC, Research Division - Analyst*

Quick -- a lot of my questions have been answered, but just more, I guess, a broader question for you. Given that Regency's got this great balance sheet, you're sitting on this tremendous liquidity. A lot of your tenants are struggling. Some of your peers are actually looking to either provide loans to some of their tenants or -- I think Brookfield just announced a $5 billion fund to invest in some of their tenants. Would you consider investing in some of your retailers, particularly the ones that you know pretty well? Or are you going to stick to your -- is your view that you're going to stick to your knitting?

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

Again, it's -- we're really -- we're early in the discussion process with our retailers. We do appreciate and acknowledge that many of our tenants are an important part of the fabric of our center. And some of them, specifically in the -- and it's not a surprise, right, specifically in the restaurant area, there -- they can be almost another anchor to centers. And depending upon how the consumer behaves and how we open up -- and again, it's so much -- there's still so much uncertainty. It's too early to answer that definitively. I would never say never. But right now, we are discussing and working with the tenants and focusing on getting them reopened and understanding what they need in order to succeed. And the team -- that's what the team is focused on.

Operator

Next question is from the line of Linda Tsai with Jefferies.

Linda Tsai - *Jefferies LLC, Research Division - Equity Analyst*

I think in the past investor presentation, you cited the stat of 40,000 groceries in the industry going at 30,000. How are you thinking about the magnitude of that number now? Are there any disruptors that might shift that? Maybe potentially the proliferation of micro fulfillment centers?

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

I'm not sure that we ever put that in print in an investor presentation. But I do recall Hap actually saying that on an investor call, probably about a year ago. And it's really just -- I mean, it was -- we were hypothetically talking at the time, saying, there are 40,000 grocery stores in the U.S. Even if we were to lose 25%, right, that's how we think about it. And that number were to really reduce. We still -- when you think about Regency as well as all of our other publicly traded peers and other institutionally owned shopping centers really own the best real estates. And so when you think of Regency, 416 shopping centers, 80% of which are grocery anchored. If I do the math, that gets you to somewhere in 300-plus grocery stores. So 300-plus out of -- even if there are 30,000, we still believe we're going to have some of the best of the best in terms of the operators that are -- that continue to operate.

And we also do believe that a physical presence is going to continue to be critically important. And look at what Amazon is doing in terms of buying Whole Foods and the unverified rumors. I guess actually, though, they've opened a store already. They are continuing to open grocery stores even throughout this pandemic. So I think that the fact that the quality of our real estate, the quality of our anchors, we haven't necessarily changed our future outlook for grocery stores.

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Operator

Our next question comes from the line of Chris Lucas with Capital One Securities.

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

Jim, I'm sorry if I missed this, but did you provide a percentage of ABR that -- which you've already agreed to deferral requests?

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

Chris, no, I didn't. We're -- like I said, we're early in the process. And all I can tell you, there's more to come, and we'll be able to share more down the road as we kind of get some of this negotiation behind us.

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

Okay. I just wanted to make sure I didn't miss that. And then, Mike, I guess, 2 questions for you. One is on the loans that you've recently closed on, I guess, curious as to whether or not there were any lender underwriting changes that sort of incorporated sort of the impact from COVID to their process?

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

No, Chris. As I said, they -- we applaud them for living up to their commitments, and there was no COVID-related modification.

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

Okay. And the last question, Mike. Just as it relates to some of these larger development projects that are on review at this point, how should we be thinking about some of the de-leasing numbers you had previously provided, particularly Costa Verde and Westbard?

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

I think it's project specific. I'm actually going to hand that off to Mac, but I think generally -- and it is project excluded, but Westbard, as an example, is more likely to maintain its occupancy and NOI than maybe a Serramonte, which we had already negotiated a termination. And in fact, their lease was going to expire relatively soon with JCPenney. So I'll hand that off to Mac and he can handle the NOI disruption.

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

Chris. I think what's really important is we're continuing to position these projects to start. And in order to do that, we need to make sure that we have the availability to get to our tenant spaces. So we'll continue to extend these tenants on a short-term basis, so that, when the timing is right, we can start these projects. But we should be able to maintain income. It gets tougher as you go along. That's not to be unexpected. That's what we've revealed in the past. So we'll hold the income the best we can, but we think that's a worthwhile trade to position ourselves to start these projects when the timing is right.

Operator

Our next question is from the line of Tammi Fique with Wells Fargo.

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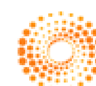

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Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Just wondering on -- just going to ask Chris' question on the $225 million of mortgages. I guess, were those negotiations taking in place pre COVID? Well, I know they closed recently, but were those negotiations, I guess, taking place earlier?

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

Yes, Tammi. Those commitments were made pre COVID. But importantly, we closed those into April. I mean, we were deep into both institutions working from home and no real re-trades on pricing or conditions.

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. But I guess just as an indicator for changes in LTVs or underlying cap rate assessments or anything else that the lenders are making, it's difficult to say at this point?

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

Yes. At this point, yes. I think we know that credit spreads are up from what we were able to secure for ourselves. And underwriting there is likely changing as we speak. We haven't tested yet on securing a new mortgage. These have been just closing deals that had already been struck prior to the crisis.

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And I'm wondering if you can comment on what you are seeing so far in May. I'm sorry if you touched on this already, and maybe what your projections are for May rent collections relative to what you collected in April?

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

We won't -- what we've seen in May is our collections through -- as we sit here today, through yesterday -- and in fact, those rates have mirrored what we experienced in April. Beyond that, Tammi, we don't have any expectations coming into May. We did anticipate that May had the potential to be less than April, just kind of given the timing of when the closures started to occur and how late they were in March. We thought there was a reasonable chance and a likelihood that May would be worse than April. But we've seen those collection rates mirror April on a day-to-day basis to this point.

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

And they still very may well settle at a lower level than April. That wouldn't surprise us. And I think Mike said, we're going to remain committed to being transparent in providing updates. So when we feel good that we have good numbers to report, we'll make sure that we provide you with that.

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. Yes, definitely appreciate that. And I'm just wondering the range of collections you were seeing for April across your markets. Are you seeing any particular pockets of weakness?

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

No. Tammi. There's no real geographic difference at this point. I think as we start to open markets, there likely will be some data that we can interpolate. But right now, it's kind of across the board, similar.

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And then just one last question. The goodwill impairment that you took in the quarter, just wondering what that was related to.

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

Tammi, you saved the best for last there. No, I'm just joking. So you have to go back in time and understand why goodwill is on our books. And it goes back to the merger with Equity One. And if you think about the way the purchase price is allocated from an accounting standpoint, at the end of the day, goodwill reflects synergy value. But then you get into how the accounting literature is a bit awkward with respect to real estate companies like Regency. Once you determine the value of that goodwill, then you are forced to allocate that to all of your assets. And it's not the assets you acquired in the merger, it's your company's assets, effectively spreading that synergy value across the platform. And then not to get overly technical, but now you're assessing that goodwill for impairment triggers from that point forward. That's a qualitative test that was triggered with the onset of the crisis. Really, it was the rapid reduction in shareholder and share value that triggers that qualitatively. Then you move into your quantitative impairment analysis, which is a discounted cash flow approach. And that results in -- resulted in us about a 40% write-down of our original goodwill. Importantly, it's there to reflect synergy value of the merger with Equity One. That synergy value has been absorbed, and it still exists. And this is where I say, the literature for goodwill, with respect to real estate companies, is a bit awkward and that they force you to allocate that to the individual assets.

Operator

(Operator Instructions) At this time, we have no additional questions. I'll turn the call over to Lisa Palmer for closing remarks.

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

I do want to thank everyone, again, for their time. I want to thank all of our frontline workers. We did have the Blue Angel slide through here today, but it was a little quiet outside my window. So I want to thank them also for saluting Jacksonville Hospitals. And Happy Mother's Day weekend to all of you mothers. Thanks, again.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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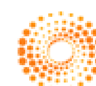

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