REFINITIV STREETEVENTS

EDITED TRANSCRIPT

REG.OQ - Q4 2021 Regency Centers Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 11, 2022 / 3:00PM GMT

OVERVIEW:

Co. reported 4Q21 results.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

Christy McElroy *Regency Centers Corporation - SVP of Capital Markets*

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

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

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

CONFERENCE CALL PARTICIPANTS

Anthony Franklin Powell *Barclays Bank PLC, Research Division - Research Analyst*

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

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

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

Jeffrey Alan Spector *BofA Securities, Research Division - MD and Head of United States REITs*

Juan Carlos Sanabria *BMO Capital Markets Equity Research - Senior Analyst*

Ki Bin Kim *Truist Securities, Inc., Research Division - MD*

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

Mary Kathleen McConnell *Citigroup Inc., Research Division - Research Analyst*

Michael Goldsmith *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

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

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

Samir Upadhyay Khanal *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

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

Michael Bilerman *Citigroup Inc - MD*

PRESENTATION

Operator

Greetings, and welcome to Regency Centers Corporation Fourth Quarter and Full Year 2021 Earnings Call.

(Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Christy McElroy, Senior Vice President of Capital Markets. Thank you. You may begin.

Christy McElroy - *Regency Centers Corporation - SVP of Capital Markets*

Good morning, and welcome to Regency Centers' Fourth Quarter 2021 Earnings Conference Call. Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Jim Thompson, Chief Operating Officer; and Chris Leavitt, SVP and Treasurer.

As a reminder, today's discussion may contain forward-looking statements about the company's views of future business and financial performance, including forward earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

subject to various risks and uncertainties. It's possible that actual results may differ materially from those suggested by the forward-looking statements we may make.

Factors and risks that could cause actual results to differ materially from these statements may be included in our presentation today and are described in more detail in our filings with the SEC, specifically our most recent Form 10-K and 10-Q filings.

In our discussion today, we will also reference certain non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, which are posted on our Investor Relations website. Please note that we have also posted a presentation on our website with additional information, including disclosures related to forward earnings guidance and the impacts of COVID-19 on the company's business. Our caution on forward-looking statements also applies to these presentation materials.

Lisa?

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

Thank you, Christy. Good morning, everyone. Thank you for joining us.

Reflecting back on 2021, Regency accomplished a great deal over the course of the year, and we have a lot to be proud of. With the disruption caused by the pandemic, it was a year of recovery, but the pace of our progress is a testament to the resiliency of retail properties like ours. As we sit here today, we feel really good about the financial health of our tenants. Our leasing activity is robust. Our investment pipeline is full, and our balance sheet is back to pre-pandemic strength. And of course, this didn't just happen. We wouldn't be where we are without the tireless efforts of our people. So if you would, please just give me a moment to thank the Regency team. Thank you, team. It truly takes all of us.

So as we transition into 2022 and look ahead, our story is no longer about recovery. We move forward with a focus on growth and also with the benefit of hindsight from the last 2 years. While we do see lingering effects of the pandemic on our tenants, specifically the impacts of inflation and labor shortages, these headwinds have thus far not impacted demand for our space.

This focus on growth did begin last year with regards to our capital allocation strategy, as we've discussed on prior calls. We pivoted to offense in 2021. We completed nearly $500 million of acquisitions last year on an accretive leverage-neutral basis. During the fourth quarter, we not only closed on the acquisition of our Turducken, Blakeney Shopping Center, but we also announced the purchase of a 4-property grocery-anchored neighborhood-centered portfolio on Long Island.

You've heard me say it before, these types of investments are the bread and butter of what we do, what our company does. Our focus is to invest in strong, well-located grocery-anchored shopping centers. Overall, the private transaction market for the centers we want to own remains really strong. We continue to see cap rate compression and value appreciation and even steeper competition for deals. But despite this, our acquisition pipeline remains active. That's because our balance sheet and access to capital give us a competitive advantage as does our reach, given the boots on the ground in most of our target markets.

Our Long Island portfolio acquisition was an off-market transaction. It was a group of family-owned assets. Kudos to our team in that market for sourcing this deal. We will continue to look for opportunities like these where the assets meet our criteria for location, quality, format and growth.

We also announced recent dispositions. And in that context, I want to spend a minute on our sale of Costa Verde since this was previously a part of our redevelopment pipeline. As most of you know, we have been really excited to undertake a mixed use densification project there that featured retail at its core. We worked for years to entitle the asset, de-leasing the property, all in preparation for future redevelopment. But as time went on, the project evolved into predominantly life science, and the highest and best use was no longer a retail-centric asset. This changed the nature of the project and the risk profile materially. We made the decision to sell as it became clear to us that this was the best path to maximize value and manage our risk for the benefit of our shareholders. Importantly, we did get paid well for the value we created at that site, and we immediately reinvested the proceeds.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

To be very clear, we don't see another Costa Verde in our portfolio. This asset was somewhat of a unicorn. But we do own really great real estate, and there will be other opportunities to add nonretail uses or to densify our properties. To the extent that makes sense, we will again pursue a similar path. This could mean partnering with experienced operators, a ground lease or a sale of a nonretail component, but always with the goal of extracting and retaining control over the retail.

As an example, we have our Westbard Square project currently underway in Bethesda, Maryland. The redevelopment of this shopping center essentially features a refresh of all the retail, including a new store for our already successful giant grocery anchor, but will also include the development of senior living and apartment components on which we have partnered with others.

Before I turn it over to Jim, I'll conclude by saying that Regency emerged from 2020 a stronger company. And we and our tenants spent 2021 adapting to position ourselves for success in the new normal, and we've done just that. We've recovered from the pandemic, we maintained and even raised our dividends, and we are on our front foot today. This consistency that you've seen from us over the years, even through the toughest of times, is evidence of the quality of our assets, our investment discipline, the strength of our balance sheet and most importantly, our people.

Jim?

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

Thanks, Lisa. Good morning, everyone. Our teams are encouraged by the positive trends we're seeing in our portfolio and in the overall retail environment. We saw record new leasing volumes during 2021 at 20% above historical levels. For the fourth quarter, rent collections are 99% and tenants are reporting positive and often record sales. With continued strength in our leasing activity and lower tenant move-outs, our percent leased rate again rose in the fourth quarter, ending the year at over 94%. We've made good progress from our COVID lows, but we continue to see further upside to occupancy from here, having achieved historical highs north of 96%.

Additionally, our teams have an opportunity to further upgrade merchandise mix in this environment, and our new leasing pipelines are healthy and building. The most active categories include grocers, medical, health and wellness, restaurants, cosmetic, home and off-price. Importantly, we are seeing good activity across all regions for both anchor and shop space.

We are also having success keeping our current tenants in place. Our fourth quarter retention rate was 85%, well ahead of the historical average, and shop tenant retention was our highest on record in the quarter Our blended rent spreads were nearly 13% in Q4, positively impacted by the execution of a new anchor lease with Target and a property in Connecticut. As we have often discussed on prior calls, our ability to recapture and mark-to-market legacy anchor leases can often be one of the largest contributors to our rent spreads over time.

We also remain successful at driving contractual rent spreads, achieving over 2% annual growth in the vast majority of our leases executed in the fourth quarter, while continuing to remain judicious in our leasing CapEx spend. Our consistent focus on embedded rent increases resulted in GAAP rent spreads of 13% in 2021, while also achieving attractive net effective rents. That said, we are cognizant that tenants are continuing to be impacted by inflation, supply chain issues, permitting challenges and most notably, labor shortages, both in operating existing stores and getting new stores open. We are seeing and planning for an impact to rent commencement timing on the margin.

Importantly, these pressures have not yet impacted demand for space, but we also recognize that may not be sustainable as labor shortages continue to adversely impact businesses around the country. For now, many tenants showing an -- are showing an ability to adapt, including in-store tech advancements, reuse of equipment and improved e-commerce and curbside platforms. We continue to monitor these trends closely, and our teams are actively working with current and future tenants on these issues when and where possible.

Moving to our development and redevelopment pipeline. Much like what we're acquiring, our teams are focused on creating value within our core competency of grocery-anchored neighborhood and community centers. We are proud of our track record and our proven ability to do so throughout cycles. Even with the pandemic-related challenges facing our industry over the last 2 years, we continue to start and deliver projects and currently have $300 million in process. To highlight a few. In the fourth quarter, we completed the first phase of our ground-up H-E-B-anchored Baybrook

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

development in Houston, and look forward to starting an additional phase of this successful project in the near future. We completed the redevelopment of the Publix-anchored West Bird Plaza in South Florida this quarter.

This project included a complete teardown and rebuild of an older public store as well as (inaudible) and site work improvements to the entire center. The immediate impact of significantly enhanced sales volumes of the grocer over pre-redevelopment volumes, coupled with the modernization of this very well-located asset, will enable us to significantly upgrade the merchandising mix and keep the center competitive and relevant for years to come.

At the Cambridge -- at the Abbot and Cambridge, Massachusetts, we have seen increased leasing activity and anticipate tenant openings later this year. The crossing Clarendon outside of D.C., we are nearing construction completion, and happy to report that we are now over 95% leased.

Looking ahead, we continue to target project spending in the range of $150 million to $200 million annually. While our development teams are seeing inflationary pressures on material and labor costs, we are carefully monitoring these increases and adjusting our underwriting. Importantly, we've been able to maintain our targeted project yields. Our teams are being proactive on securing bids, ordering materials early and utilizing our scale, relationships and connections to mitigate our risks as effectively as possible.

In summary, our team is optimistic about the current retail environment and the positive momentum we are experiencing across all regions in leasing, development and redevelopment.

Mike?

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

Thank you, Jim, and good morning, everyone. I'll start by addressing fourth quarter results, provide some color around sources and uses relating to recent transactions, and then walk through some highlights of our initial 2022 guidance.

Fourth quarter NAREIT FFO was positively impacted by a few items worth mentioning. Uncollectible lease income was a positive $6 million in the quarter, and you can see the components of this detailed on Page 33 of our supplemental. Additionally, similar to last quarter, straight-line rent benefited from the reversal of reserves triggered by the conversion of some cash basis tenants back to accrual. This noncash accounting impact benefited uncollectible straight-line rent by about $7 million. To reiterate, straight-line rent does not impact our core operating earnings, but these conversions created an outsized benefit to NAREIT FFO in each of the third and fourth quarters. Following the conversions back to accrual, we now have 17% of our ABR remaining on a cash basis of accounting. For this smaller pool, our cash basis collection rate was 94% in the fourth quarter.

From a balance sheet perspective, we ended the year with full capacity on our revolver and we have no unsecured debt maturities until 2024. Total leverage is back to well within our targeted range of 5 to 5.5x. The acquisition of Blakeney, which closed in November, was funded with cash on hand and our share of proceeds from dispositions completed in the fourth quarter. The acquisition of the Long Island portfolio, which closed just prior to year-end, was funded with the sale of Costa Verde in early January. Notably, and the challenge that often goes under the radar with dispositions of long-held assets, in the last year, we've been able to sell nearly $250 million of properties on a tax-efficient basis by structuring 1031 exchanges.

Turning to guidance. Please be sure to review the very helpful detail in our press release and business update slide deck posted to our website. While our earnings have historically been more visible and predictable, our 2021 earnings were impacted by a few cash basis accounting adjustments that complicated the picture heading into this year. These include prior year reserve collections and straight-line rent reversal impacts, where it appears as if expectations around these items resulted in meaningful variability in Street estimates. To add some clarity, we've increased the transparency even further in our guidance disclosure relating to these items.

Regarding the collection of prior year reserves, last year, we collected $46 million that we had billed and reserved in 2020. This year, we expect to collect about $13 million of revenues billed and reserved in prior years. These impacts are only related to the timing of revenue recognition, and this timing difference represents a $0.19 per share decrease in NAREIT FFO year-over-year in 2022.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

One of the other big variances, as I mentioned, is the noncash impact of straight-line rent reserves. Last year, we recognized $43 million of noncash revenues, which included $13 million driven by the conversion of tenants from cash basis back to accrual. This year, we are forecasting roughly $28 million of noncash revenues. That's a $0.09 per share difference impacting NAREIT FFO. And as we've mentioned on prior calls, we only plan to include the cash to accrual conversion impact and forward-looking guidance as tenants are converted. So right now, we have zero impact in our 2022 guidance relating to future conversions.

We mentioned on the last call that the JV promote was recognized in Q3 '21, would not recur in '22. And we also discussed that our quarterly net G&A run rate would be higher in '22, driven by annual salary increases, filling open positions and returning to more normalized levels of T&E... Collectively, these impacts are another $0.14 at the midpoint. We hope you find this walk-through of material and unusual impacts helpful.

Pivoting to same-property NOI growth, after adjusting for prior year collections, we are forecasting growth of 3.5% at the midpoint. That's $0.16 per share of incremental positive FFO growth. We will continue our practice of disclosing the same-property NOI growth range, excluding prior year collections for as long as they meaningfully impact our results, providing some reflection of a more normalized growth rate where the primary contributing component is base rent growth.

One last reminder on same-property NOI. Recall that in the first quarter of last year, we were still recording meaningful uncollectible lease income at nearly $18 million when excluding any impacts from prior period collections. This compares to roughly $2.5 million in the fourth quarter of '21. So as we look to the cadence of growth by quarter during '22, we are anticipating a higher growth rate in the first quarter relative to the other three. Also included in guidance, we expect transaction activity will be accretive to earnings this year. And while on the surface our disposition guidance exceeds acquisitions, remember that the acquired Long Island portfolio closed on December 30. So the impact is really that of a 2022 purchase. We have about $65 million remaining of unsettled forward ATM equity, and expect free cash flow from dividend payments north of $130 million this year, all of which supports and funds our investment pipeline and future growth opportunities.

Finally, a quarter ago, we talked about NOI getting back to 2019 levels on an annualized basis during the first half of 2022, and that was 6 months sooner than we had originally anticipated. But we're pleased to report that in the fourth quarter of 2021 and after excluding prior year collections, total NOI has now recovered back to 2019 levels. As Lisa alluded, with the recovery behind us, we've now pivoted our mindset toward growth in 2022 and beyond.

And with that, we look forward to taking your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Rich Hill with Morgan Stanley.

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

I suspect you're going to get a lot of questions about the guide, but I'd like to start off by saying I think you've done a really good job of bridging that. So thank you for it. I have more -- maybe more of a strategic question to kick us off. Occupancy looks like it's around 100 basis points below '19 levels.

Curious if you can give us the time line for full recovery. And more importantly, when does your calculus begin to change from occupancy recovery to gains on pushing rents more. So it's sort of like Lisa, what you were talking about pivoting to offense, just a strategic question, how close do you think you are to really pivoting?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Rich, this is Mike. Let me start and then Jim will provide some color as he sees the releasing environment. And let me first say, I appreciate your comments on the disclosure. We absolutely understand the complexity and the noise that we've lived through in '20 and '21 and anticipated that and are trying to help as best we can.

From an underlying assumption perspective on our same-property NOI growth range, we are planning for increases in both top line percent leased as well as commenced occupancy rates in the 75 to 100 basis point range, that is what's underlying and supporting our midpoint of 3.5% growth, which largely is coming from base rent growth.

Recall, we're also getting about 1.3% of contractual increases contributing to our top line NOI as well. With respect to pricing power, I'll let Jim jump in and provide some color on how the teams are attacking our rollover.

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

Yes, Rich, as you saw, our spreads are getting better. We had roughly 13% this quarter on a blended basis. When you couple that with the embedded rent steps, we continue to get it over 2% in the vast majority of our spaces. The prudent leasing capital spend that we're doing is driving really good GAAP rents as well as net effective rents. And combined, when you look at that whole package, that's what we're looking at as far as the positive direction for long-term growth in the portfolio. The demand continues very strong across all regions, like I indicated in the prepared remarks. We think that will continue to, at least in our portfolio, continue to have the leverage shift more towards the landlord side, we believe, as spaces do get more occupied, I think we'll be able to drive even harder deals.

But I think to stay at home change in the entire retail landscape, I think it's been very positive for us and our product type. We are close to homes. We are in generally very strong demographic, high-density marketplaces, not a lot of urban locations. So that has played well for our product type and we continue to see that as a positive vehicle to help support our demand going forward.

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

And Rich, one last comment because I realized you were asking a little bit about forward total recovery. Importantly, to highlight our top end and how we think about kind of maximum occupancy, we are 96% is where our eyes are. We think our portfolio and the quality of our assets and the historical performance of them would support a 96% occupancy rate. You drop about 150 basis points off of that for a commenced occupancy rate. So not only do we see 75 to 100 basis points supporting our '22 growth, we see growth beyond that of similar rates of increases.

And if you think about our post GFC recovery progress, this is -- this recovery is on a -- 70 to 100 to is a little bit below what we experienced post GFC, but we did have more room -- more vacancy coming out of the GFC, more space to fill than we do now. This trajectory feels right to us, feels healthy and feels appropriate for that long-term recovery.

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

Got it. So as I think about this, it sounds like to me, a year from now, knock on wood, you're going to have -- you're going to be in a pretty good place back to where you were prior to the GFC. 2021 was obviously a remarkable year of recovery. '22 is sort of blocking and tackling and a little bit of a transition to get back to that level where we were prior to -- we always said the GFC got COVID. It sounds like you're going to be in a really good place 12 months from now. Is that fair?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Absolutely. And I think that, that's a really good point, Rich. So our NOI really has recovered. Our total NOI has recovered. And I have the utmost confidence that when we look at how we will perform in 2022 from an earnings perspective, despite the complexities that we talked about with the guidance that our recovery will stack up really well versus 2019 versus everyone else in the sector.

And that's with our balance sheet actually being even better positioned today. Our net debt to EBITDA is lower today than it was with going into COVID, and that was with maintaining and raising our dividend. So we feel really good about it, and we feel good about 2022.

Operator

Our next question comes from the line of Katy McConnell with Citi.

Mary Kathleen McConnell - *Citigroup Inc., Research Division - Research Analyst*

So I just had two more questions on guidance. And the first is within your same-store guidance range, what are you assuming for new bad debt expense this year versus 2021? And secondly, understanding the straight-line guidance will only be updated as those cash tenants are converted back to accrual, or can you maybe help us quantify how large that total impact could be in theory if that entire pool was converted back to accrual method tomorrow.

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

Sure. I appreciate those questions, Katy. From a bad debt expense perspective, so let's talk about current year billings is the question. In 2021, we ended the year at about 175 basis points of bad debt expense on 2021 billings. As we think about our underlying assumptions going into '22, we see improved -- improvements in our cash collection rates. And we're calling for about in the area of 100 basis points on a comparable basis in dollars, that's equating to about $10 million of improvement.

We could do better than that on the top end, but we -- and we provided for maybe a little bit less collection on the bottom end. But at the top end, we could see us returning to our historical averages by year-end -- so not on an average for '22, but by year-end. And that historical average to remind you is about 50 basis points of billed revenues. And that is where we anticipate ultimately recovering to.

The question on straight-line rent is a good one, and I'd point you to Page 34 of our supplement, where we've been breaking down our more diligently our COVID disclosures. What you'll see there is a reserve on our straight-line rents of $33 million. So this is getting to your point of what is the maximum potential in theory, that $33 million is the maximum potential, but a heavy dose of caution there, Katy, on whether we can -- whether we will ever eventually convert all of those tenants back to accrual.

Recall, we have 17%, as I indicated, on a cash basis of accounting today. There is some visibility as we sit here in mid-February to converting more tenants in the first quarter. I think just to give you a number on that, our outlook calls for in the area of $5 million of potential conversion income on an FFO basis, noncash. We're on an as-converted basis, and we'll continue to update everyone as those conversions occur.

Michael Bilerman - *Citigroup Inc - MD*

It's Michael Billman here with Katy. Maybe Lisa or Mike, maybe just stepping back, overall, and I recognize there's a lot of complexities with the prior reserves and noncash income that clearly, at least, it appeared as though -- the Street got a little bit ahead of itself and it's not only to you, obviously, other companies across other sectors as well that impacted, but when you sort of compare your line item guidance relative to the Street, it would seem at least half of it is more core related, lower core NOI, bit higher interest expense, higher G&A, even above the levels that you had sort of previously indicated.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And so missing the Street by 5% or 6%, half of that being core, how do you look at that item because I don't think all of this is truly just reserves and noncash? There seems to be some either conservatism in your views or that the Street just got way ahead of itself. And so I'm just trying to understand from your vantage point, how you look at things and how you're going to pivot to stronger FFO growth as we roll into '23 and '24?

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

I appreciate the question, Michael. And I would agree a little bit with Street maybe getting a little bit ahead. Just to walk through some of the details just that we're all on the same page, yes, the noncash conversion item is a major component of the decelerating growth, right?

So if you just look at the fourth quarter on a run rate basis, that's $0.05 of our issue going forward. And again, we're not guiding on future conversions, although let me reiterate the potential Q1 conversion of about $5 million. Then we get into what we still call our core, which includes prior year collections, and that is an unusual and material moving item.

That component of ULI is going to be about -- is about a 3% impact to the fourth quarter. So that is impacting our run rate going forward. And as effectively, Michael, absorbing our good, healthy growth in base rent and NOI going forward in our 3.5% guide on that line item, which leads and isolates on the core or increase in G&A as a drag. And again, that's an item that we identified in the third quarter call. We wanted to make sure that people's run rates for quarterly G&A was in the $20 million range, which was about a $2 million increase per quarter over what we experienced in '21.

On that line item, just for some context, as I said on the call, we're filling open positions. We've increased our -- we had our annual salary increases. A big line -- a big component of our increase is returning to normalcy on the T&E front. Our teams are back on the road. We are reinflating those line items to 2019 levels.

That's about 40% or so of our forecasted increase in G&A. And then I need to mention that and remind everyone, we did have an unusual onetime negative G&A impact in '21 related to LTI forfeitures. We had some departures, most notably at the CIO level, and there was a onetime impact that benefited '21 that will not recur in '22.

You put all that together, and I think you want us to boil us down and think about and hear how we're thinking about the business. Looking through prior year collections and thinking about the midpoint of our core range, that's a 3% increase as we're thinking about our core operating business. And if you think about the upper end of that range and trying to compare it to 2019, we're only 2% off of that reported number as a -- if we want to put a line in the sand as 2019 recovery.

So we feel -- as Lisa said, we feel great about the outlook for '22. We are on the right vector of recovery on the leasing front, and we're looking forward to growth from this point forward.

Michael Bilerman - *Citigroup Inc - MD*

And you feel like it's an accelerating growth into '23 and '24 because ...

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

I think that it goes back to what we just answered with regards to the continued ability to increase our occupancy. And we do feel -- we feel good about that. We still have room to run. And the fact that also, I think -- I appreciate the question, Michael, about the different line items, if you will.

But as I think about it, and Mike, I can't articulate it better than Mike did. The core business is the same property NOI guide, excluding all of that prior year noise, and that's a midpoint of 3.5%.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

That's growth to me and continued growth. And I think it's really important to not brush over the fact that I said our net debt to EBITDA is lower today than it was entering COVID. We have capital, we have room to run. We are looking for opportunities. Our development pipeline is refilling, and we are really active in the acquisition arena, $500 million last year. So yes, I believe I have a lot of confidence on the future growth of -- for our company.

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

And philosophically, we -- as you know, we don't guide on speculative transactions on the acquisition front. We have $30 million in our '22 guidance. That is an opportunity in the Pacific Northwest that is under contract, and we feel great about closing. But as Lisa said, and we've indicated throughout '21, with our balance sheet and our free cash flow levels exceeding $130 million, we're on our front foot on the investment front and looking forward to putting that -- those opportunities to work.

Michael Bilerman - *Citigroup Inc - MD*

Yes. I think investors are just trying to understand to my last comment, I'll yield the floor. But just trying to understand, Lisa, exactly with that top line positive growth, and you can see the occupancy going up and all the initiatives, the transaction activity, the development, redevelopment that it should ultimately translate into better growth and with a disappointing guide, I think investors are sort of questioning that it may make sense to go the federal route and sort of lay out the multiyear building blocks to your growth so that people can get comfortable that, that top line same-store growth is really going to drive bottom line earnings growth and dividend growth.

And I know the dividend was never cut and that's an important part of everything and the balance sheet is in a good position. It may just need a little bit more guidance to the Street so that we can see this multiyear growth platform come into effect.

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

Sure. Absolutely. And I want to make sure, I think the team has done a tremendous job of providing the individual components. So I want to make sure that I recognize that of the team. And -- there -- it is a lot of onetime things in 2021, which I believe that we have very specifically already laid out, but I appreciate the comment, Michael. We not only maintained the dividend, we actually had a pretty significant increase, too.

Operator

Our next question comes from the line of Michael Goldsmith with UBS.

Michael Goldsmith - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

Lisa, 2021 is a pretty unique year for retail where the consumer benefited from stimulus and child tax credits. There was a shift from services to good as we enter 2022, we're facing with some of these factors reversing plus we've got inflation, which could leave into discretionary dollars. What is your outlook for kind of the consumer and retail for the year? And given your focus on grocery-anchored centers, do you feel like you're really well positioned to kind of stay the course even if this 2022 becomes a little bit of a volatile year for retail and the consumer.

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

Mike, I think you answered the question for me yourself. I do feel -- I believe that there's no question that there's a lot of impacts to the consumer. But with regards to the part of the retail sector that we are playing in, if you will, is the best positioned.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

So Jim said it in his answering the occupancy question, being close to people's homes. So there's no question. I mean, we all read the same data and news articles. Some of the largest increases for -- that are impacting families are in gasoline and in energy and people are staying closer to home, which is a little bit of a tailwind, if you will, even in spite of the headwinds of rising prices, it's a tailwind for suburban shopping centers and for grocery-anchored shopping centers.

People are eating at home more often. And when they're not eating at home, they're staying close to home to eat. So again, it's benefiting our product type. We're seeing it in sales at our shopping centers. Our sales are up not just over 2021 and 2020, but over 2019, kind of a more normal environment, if you will.

So our outlook is still really bullish on grocery-anchored shopping centers, and you're seeing that translate into the demand for that product type as well in the transaction market.

Michael Goldsmith - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

That's helpful. And then, Mike, on the guidance, thanks again for the detailed breakdown. Can you outline some of the items that may not be included in your guidance, you talked about future transactions and acquisitions. And then at the same time, your guidance calls for same property NOI growth of 2.75% to 4.25% ex the term fees and the prior year reserve collections. If we back out some of the outsized expense recovery from the prior year, does that kind of reflect the go-forward growth algorithm of the core business?

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

Sure. I think much like you do with Lisa, I think you answered some of that there, Michael. We do exclude transaction activity, again, kind of as a rule at Regency's philosophically, and we just don't -- we just want to set those expectations for us internally into making poor investment decisions. So those will all be incremental as we move forward.

Within the same property NOI line item, I appreciate you bringing up the tough comp in Q2 from '21. We did have an outsized recovery experience in '21 that will not recur in '22. That's about a 50 basis point drag. What we're -- essentially, that's -- there's 3 big components to the same property growth at the mid. It's 400 basis points total, 300 basis points coming from base rent growth and 100 basis points coming from improvement in ULI and I went through that assumption on bad debt expense on a previous question.

And then that drag of 50 basis points is bringing us back down to the 3.5%, 4% compared to historical averages is pretty healthy. You've heard us and followed us and heard us talk about 2.5% to 3% on a stabilized basis being a normal rate of growth annually for Regency.

So 4% would reflect a rising level of occupancy, which we articulated in that 75 to 100 basis point range.

Operator

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

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

I had a question on -- the -- obviously, we saw the -- we've heard about the Donahue Schriber transaction going at a very low cap rate, and we've heard some of your competitors and peers talk about that cap rates are going lower. As you think about allocating capital over the next year or two, Lisa and Mike, how are you thinking about that when you're weighing developments versus new acquisitions because new acquisitions clearly are going to be at lower comp rates than what they've occurred over the last 18 months. And then also maybe talk a little bit about your differentiated approach to development relative to your 2 large cap strip peers? And can you put enough capital to work in that space in your view?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

I'll start and allow Mike to add any color as needed. So Floris, we strategically and how we think about putting capital to work, we have not changed our point of view and we do look at investments holistically. And we always say the best use of our capital is to reinvest back into the centers that we already own, and we know really well, and we are constantly intentionally and intensively managing those assets to do that.

And we have a pretty good track record of doing so and putting capital to work there and getting really good risk-adjusted returns with that capital. But those opportunities are limited, as you pointed out. I mean, that is not an unlimited open check, if you will.

And then we also use our free cash flow and balance sheet capacity to invest in ground-up developments. And again, I think we have the best team in the business. We have the best track record in the business. We have as we said -- as the Costa Verde sale will show you, we have once again really refocused on our bread and butter on what we do best, which is grocery-anchored shopping centers.

And we've had -- we still are enjoying a lot of success there. Just in the past, I lose track of time, but we have a publix underway here. I can almost see it outside of my window -- in Jacksonville, we just -- we're ready to potentially start Phase II of an H.E.B. that we actually greenlighted during COVID. Many of you have had the opportunity to see our recently completed Wegmans in Raleigh.

We've got a publix underway in Richmond, and I can go on and on and on. We've got a fantastic team, and we will continue to get more than our fair share of those opportunities. And as we all know, grocery is growing, and we're going to continue to have the opportunity to do that.

And then with acquisitions, I think Blakeney, Long Island, again, success, Pruneyard prior to that, we -- when we have boots on the ground. We have the team in the ground, we have relationships, really important that help bring opportunities to us and we do have a cost of capital advantage when we're able to use that and use our expertise and see an opportunity to add to the quality of our portfolio and add to the future growth rate of our portfolio, we're going to take advantage of it, and I feel really confident that we'll do that.

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

If I can add -- maybe I have another question here in terms of technology and data. I mean you are -- you were the largest owner, you're now the second largest owner, but you've had this wealth of information at your fingertips. Maybe if you can talk a little bit about how all of that information and getting the new information, particularly regarding cell phone usage or traffic at your centers?

How is that helping the business? How is that helping your small shop? And does that actually allow Regency to maybe boost in particular, small shop occupancy, which has always lagged our anchor occupancy. Are there things where you can actually monetize some of that technology and data and improve the economics of the business.

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

I'll start and Jim can add to the extent that he has any little nuggets. But it is -- I appreciate the recognition of the size. I do think that scale matters. We talked about that going back to 2017 when we merged with Equity One. Just that one combination made a difference with relationship with tenants, with our ability to mine data, as you said, and also just the absolute levels of free cash flow that we have allow us to invest back in the business as well.

And that is in technology and in data analysis and in being able to do a little R&D and what can we do to help drive occupancy and drive higher rents in our shopping centers. And I think you continue to see that. And we have -- I mean our peers are doing some of the same as well. It's not as if we have a secret sauce.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

I think we have all gotten better and more sophisticated, certainly over the 25 years that I've been here. And I think we're going to continue to do that. We're going to continue to be able to help our tenants and further drive occupancy, the higher the quality of the shopping center the more ability you have to do that. And I think, again, we are well positioned to do.

Operator

Our next question comes from the line of Samir Khanal with Evercore.

Samir Upadhyay Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

Jim, correct me if I'm wrong, but I think in your opening remarks, you talked about labor shortages and I think the impact on rent commencement times. Maybe just expand that on a bit kind of what you're seeing in your portfolio? Just trying to understand that a little bit more.

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

Yes, Samir, obviously, it's a headwind that we see out there. I would say it has not been impactful to date. But we're cognizant of it and prepared to expect some delay on rent commencement. Probably the biggest challenge as I look at it today is still probably on the front end from the permitting perspective, the municipalities are still working from home from a lot of perspectives. It's hard to get plans approved.

It's hard to get inspectors out. So that's probably the one thing that we're having the hardest time circumventing and figuring out better ways to solve the problem because it's -- we really -- that's the toughest issue. Everything else we're getting creative like our -- we're figuring out ways to multiple options for different product types, how do you preorder items, preparing white box well before you need it. Things that we've always done on the margin, but now are just absolutely critical to think about what's Plan B and be ready to snap to Plan B, know what it is, execute on it without losing time.

So, so far, like I said, it hasn't been an impact, but eyes wide open, I think the labor issue is the one that kind of keeps me thinking about . And the impact, I think, is basically there. Supply chain, we're kind of working around, but the labor, hopefully, knock on wood, is starting to sort itself out.

Samir Upadhyay Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

Okay. And I guess, just my second question, I know you don't guide to transactions. But is there a way to sort of give us an idea of what that pipeline looks like today? I mean, how active is that maybe the volume of product you're currently looking at, whether it's portfolios, one-off assets. Just trying to get a sense of how much on the offense you can be this year considering where pricing is and you did that $500 million and the ability to repeat that.

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

Let me sum here start a little bit from a financial perspective, and I'm going to let Lisa speak to our pipeline and our activity. And this dovetails a bit with question from Floris previously. It's -- we've talked a lot about growth.

We talked a lot about continued recovery in 2022 and beyond. And Lisa has been great about mentioning our balance sheet position. So if you put all that together, that organic EBITDA growth and us intentionally wanting to operate within this 5% to 5.5% balance sheet range and a starting point at 5.1% today, that is going to provide us with that capacity and firepower to continue to be proactive and on our front foot on acquisition activity.

You could -- I think the numbers, absent any more disruption and a more continual rate of growth, much like we're projecting in '22 in that 3% to 3.5% range, you could pretty easily rationalize a $200 million to $300 million acquisition pipeline that Regency can afford to bring on without undue

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

pressure from our perspective to our balance sheet. And we're excited, and we think that capital -- so effectively, you're over leveraging those acquisitions without over-leveraging your total balance sheet, which is allowing us to be competitive.

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

I don't know that I have that much to add, but I think that if you do think about the guidance, and we did guide slightly. It says that we feel really -- we're really close to being able to announce that $30 million acquisition. But there's a lot behind that as well that we are actively pursuing. It's just that it's never ever definitive in that world until it's definitive.

And so to the point about not wanting to get ahead of ourselves guidance because when we do acquire, it will be accretive. So to the extent that we couldn't meet the guidance, if you would, then we would be walking backwards. And instead, when we announce an acquisition, it's going to be accretive. And we are actively pursuing, and I feel confident that we're going to have some success this year.

Operator

Our next question comes from the line of Juan Sanabria with BMO Capital Markets.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - Senior Analyst*

First question would just be cap rate expectations, maybe a range of recognizing you don't want to negotiate against yourself. But how should we think about cap rates? I know you just said that they're going to be accretive, but just from a given you're using debt to fund it, it sounds like, but just what expectations do we have in mind for cap rates?

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

That's a great observation, Juan. That is the point about being able to lean in with our balance sheet is that when we look at our weighted average cost of capital for new acquisitions, we can lean in a little bit more. But with that said, cap rates continued, as we said in our prepared remarks, compressed valuations rising. Floris indicated the report about one large portfolio that is in a sub-5 cap rate range. And as I spoke about, the demand for grocery-anchored shopping centers is really strong.

The competition is steep in the transaction market, and we continue to see cap rates in the 4.5% to 5.5% range depending on depending on how stabilized they are, how much growth there is to still harvest coming out of kind of the disruption from the last 2 years. But with that said, I go back to the team, we have 22 offices across the country. We have boots on the ground. We have a competitive advantage with our cost of capital. We have a competitive advantage with our experience and our expertise. And where like the Blake knees that were sub-5% or like the Long Island portfolio that was north of 5, there's going to be a little bit of a range, but it's going to be in that -- basically that band, if you will, for the quality that we're looking for.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - Senior Analyst*

Helpful. And then just a bigger picture question. Hoping you could help us frame how rents have moved or grown and kind of what you're expecting going forward on that front? And compare that to cost growth and is the difference maybe costs are outpacing rents at least for now a limiting factor in truly ramping up more significantly your development pipeline, or how are you guys seeing that and thinking about those two variables as drivers of capital allocation?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Let me open I'm going to pass to Jim to talk about the rents that we're getting and the fortunate thing with our type of product, we do have 10% to 14% of our space turn on an annual basis. So you do have an opportunity to kind of keep up with inflation, if you will, and mark rents to market in addition to the fact that we're getting contractual -- annual contractual rent steps and already getting 3% annual increases.

So that's also helping us move towards inflation. But from the actual experience of 2021 and results with net effective rents, which also capture some of that cost increases for the capital that you're spending, we have great success. And the same with our developments in terms of underwriting, our costs, capturing that as we're thinking about the go forward, we're incorporating that.

And we still have -- we are still building that pipeline and anticipate being able to achieve the returns that we need to achieve.

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

Right. I would just pile on there on the inflation side. As I mentioned, in our redevelopment and development pipelines, we're continuing to perform as advertised on yields and as we're underwriting new deals. Again, eyes wide open on the inflation, the timing delays, all those things are being built in, and we're maintaining what we believe are appropriate yields going in.

Operator

Our next question comes from the line of Jeff Spector with Bank of America.

Jeffrey Alan Spector - *BofA Securities, Research Division - MD and Head of United States REITs*

One follow-up on the guidance, and I apologize if I missed this, but again, just thinking about, I guess, the low end of the same-store NOI guidance at 2.75%, what would cause you to be at that low end? Is it simply thinking about more of a flat occupancy? Like what would cause your bottom end to occur?

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

Jeff, I appreciate that. It would be a different view on move-outs primarily to your point. And it would also include maybe a bit of a delay on contributions from some of our redevelopments as well, a timing delay. In combination, that would be the support for the low end.

We have planned for move-out activity in '22 to be consistent with our historical averages. Jim mentioned our higher retention rate. But the plan for '22 would be that we revert on the margin down into kind of a more normalized level of move-outs. And that's part of the business. Tenants will move out in our best of times or in normal times, a 75% retention rate is considered pretty normal.

So that downside would include a little bit worse environment, if you would, on the move out front. I think I'm looking to run the table at Jim and Lisa, we're very confident with the midpoint of this range. We -- as we sit here in mid-February, and think about the environment we're in, coming out of the Omicron wave, all else being equal, and if we continue on this path, we're pretty confident in delivering at that midpoint. And hopefully, our eye level is north of that.

Jeffrey Alan Spector - *BofA Securities, Research Division - MD and Head of United States REITs*

And then just a big picture question. Lisa, you've mentioned grocer-anchored centers , and we still receive a lot of incoming questions on brick-and-mortar grocer. I guess, just big picture, like what are your latest thoughts on that business? What are you hearing? What's the -- what are the grocers doing to keep the brick-and-mortar relevant versus, let's say, this more elevated e-commerce for grocer?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

I don't -- I appreciate the question, Jeff, but I don't know that it's really changed very much in the last 12 to 18 months. There was certainly a lot of acceleration in the early parts of the pandemic with regards to how grocers were reacting and how they were adapting, if you will, to the new challenges.

I think that -- you've heard me say this before, and it's not just for grocers, it's for all retailers, the most profitable way for them to get their goods into a customer's hands is for the customer to come into the store. So they continue to invest in the store as well and that experience. But at the same time, they understand the competitive need to be able to serve the customer and through the other methods, if you will. And that is curbside, which a lot made really, really quick advances because they had to during the beginning of the pandemic, and the successful operators are now doing that extremely successfully.

And so curbside is one, no doubt. And then last is the home delivery. And again, they recognize the need, though it's clearly the least profitable for all. And we see that, that is -- I mean, look at what Amazon is doing with opening stores so that they can also complement their home delivery with curbside and with pickers, if you will, anything to get closer to the customer, that last mile.

And our grocery stores, our shopping centers or that last mile -- have that last mile distribution capability. And so a lot of the operators are then investing into that. And you're seeing different means of testing R&D, right? Kroger is doing more of the -- more -- as we know, right, the Ocado.

You're seeing Albertsons is probably the -- investing the most right now in micro fulfillment. H-E-B is doing a kind of a combination of both, and all of the better operators are investing. They're investing in technology. They're investing in the customer experience. They're investing in delivery, if you will, whether it's from their store curbside or whether it's to the homes. And again, the last mile matters, and that's where we're positioned.

Jeffrey Alan Spector - *BofA Securities, Research Division - MD and Head of United States REITs*

And then just my last question. I guess, whether it's dispositions or as you think about the portfolio positioning for the next few years, can you just talk about regions? And is any -- are there any regions you're hoping to maybe lighten up on or add to?

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

We like the markets that we're in. You've heard us speak in the past that I do think that the pandemic has actually provided a lot of tailwinds for suburban shopping centers, which, again, is where we are located. It also -- there have been some migration patterns, and markets are seeing accelerated population growth that they weren't seeing before. I love to talk about my hometown as one of those.

Jacksonville is seeing quite a bit of population growth. It is a market that we will be looking more aggressively for potential new investment opportunities. You've heard us talk about Phoenix as a market that we are currently not in. It is one that we've added to our target market list, if you will. But beyond that, we like the markets we're in. We're going to continue to invest capital in compelling opportunities. Trade areas matter, and that is really where we focus our attention, so on trade areas.

Operator

Our next question comes from the line of Anthony Powell with Barclays.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Anthony Franklin Powell - *Barclays Bank PLC, Research Division - Research Analyst*

Just a question on this development. And I guess there seems to be more interest in doing things like life sciences, apartments and office and suburban, I guess, areas. Have you looked at your portfolio to see if there's an opportunity to systematically mine these development opportunities like you have done with Costa Verde, or are there going to be kind of more one-off deal?

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

We are constantly evaluating how we can maximize the value at all of our properties, whether that is specifically just harvesting and growing retail NOI or whether there is an ability to add different uses, it is a daily conversation at our asset management level. And we do have future opportunities. We've alluded to some in our supplemental disclosure, and we'll continue to have some.

I mean, we have a portfolio of over 400 shopping centers across the country, and we own really great real estate under the shopping centers. We will continue to target development spend in that $150 million to $200 million on an annual basis. And some of that's going to come from properties that we already own.

Anthony Franklin Powell - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. I guess, do you see, I guess, a higher mix of new mixed-use development or, I guess, things like that relative to prior levels, or is it going to be kind of similar to what you've done before?

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

No. And again, I mean, looking at Costa Verde as an example, we are going to be focused where we can extract the value from the retail to the extent that the dollars -- the capital to be invested for other uses, we are -- our goal would be to use an experienced partner, perhaps ground lease that or sell it like we did with Costa Verde. So our dollars invested are going to be focused on retail.

Operator

Our next question comes from the line of Ki Bin Kim with Truist.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

A quick question on your nonsame-store NOI projections for 2022 is expected to be a $0.02 drag. I'm just curious about that. Is that because of the J curve nature to some of the development were dilutive in the beginning that you should regroup later. Just if you can help us understand that line item better?

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

No, I appreciate that question, Ki Bin. Actually, the same property pool basically is all of our assets at this point in time. So we really don't have much remaining in the non-same pool. This is our captive insurance program that we have classically held in our non-same-property pool. And what you're seeing here is an incredibly positive 2021 from a claims perspective.

We are anticipating in this guidance that, again, we revert to more classic or historical levels of claims. But what you had was a year in '21, absent any hurricanes, absent any tornadic activity. So we're planning for knock on wood, but that would not recur this year.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

Got it. And can you help us understand how the mechanics of your expense reimbursement that you're recouping given the inflation in the environment that we're in? I'm curious if expenses go up 10%, like how much of that are you actually able to pass on to tenants versus creating maybe some additional leakage that might be dragging same-store NOI down?

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

Yes. I mean, on a current year basis, our recovery rates, we anticipate maintaining at historical levels and growing as we grow our commenced occupancy. We do have that unique onetime item in '21 in the second quarter, which was really a follow-on from '20.

If you really trace it back, we were concerned about collecting on recoveries in '21 coming out of the depths of the pandemic in '20, and that's reverberating through our '22 results.

So again, unfortunate some noise that's in that noise category. But on a current year basis, we feel confident in whatever increases are to occur on the expense line items, which we are not anticipating to be material.

I think our expense growth is in line with historical averages. We are anticipating an ability to pass that through and maintain our recovery rates.

Operator

Our next question comes from the line of Greg McGinniss with Scotiabank.

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

Obviously, a lot has been covered. So just one for me, and I apologize if this is already been discussed. But regarding the $85 million impairment this quarter, where Potrero was expected to be a transformative redevelopment project within the Equity One portfolio and appears you're now looking to offload that property. Can you just provide some background on the evolution of that site why it's no longer fit for the portfolio?

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

Sure. And so really, let me handle it from an accounting standpoint first. And then Lisa or I, we can talk about the future prospects of the project. But it really -- impairments are really about hold period analysis. So as we do our work to essentially measure all of our assets, the assumption of hold period is the biggest assumption towards whether or not you'd have to mark your assets to market.

So obviously, sales are a classic example of when you mark your assets to market and you recognize an impairment or a gain. In this case, together with some of our movement on an asset like Costa Verde, together with some movement in that center city, particular trade area, San Francisco.

The probability of sale increased to a level where that trigger from an accounting standpoint resulted in a requirement to mark the asset to fair market value. So you go through that exercise as you're required to do and the valuation that is supporting that mark is a current valuation as supported by market participants and brokers on what I would deem a retail-only long-term basis.

So that's what happened from an accounting standpoint. Potrero is a great asset. It's a very good retail center. At the time of the original allocation of basis post-merger with Equity One, there was a near-term plan in place that involved a material densification project.

And to Lisa's point previously, the -- if you think about the allocation of retail to non-retail, it was a significant amount of nonretail densification and she articulated very well our plans going forward, which is to mine to the best of our ability and extract where we can, the retail component of projects but to use other means of extracting value on nonretail.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

So that could, again, include selling air rights. It could include joint ventures. It could include ground leases. It could include monetizing assets and redeploying -- maximizing land value and redeploying that capital as we did from Costa -- very into the Long Island portfolio.

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

I don't have that much to add. I think, Mike, you covered it. It becomes essentially a financial analysis decision. It's similar to Costa Verde, similar to Sequioa. It's a great retail site. But what path maximizes the value while managing the risk. And we haven't made a decision, just -- I mean, it's not held for sale, but the probability of the hold period, that changed, which triggered the impairments evaluation and analysis. But still more to come. We have not made a decision on that asset.

Operator

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

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

Just have a quick one. Just given the demand picture, is there any chance we could see the $150 million to $200 million in development spend accelerate?

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

It's for 2022. The probability that's not very high because it does take time. And remember, while we have the best team in the business and they were working throughout kind of the disruption period, we did pause for a period of time when there was no visibility to how long this would last, if you will, starting in April of 2020.

We flipped -- switched back on pretty quickly. But even that -- but that pause still created a little bit of a delay, if you will. And we are rebuilding and there is a potential for it in future years, certainly not for 2022.

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

Yes. I was thinking more over the next 3 years or so.

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

Mike, I'd love for you to come set goals for my team and speak to them and let them see if they can do more. The more we can do, the better because we can fund it.

Operator

(Operator Instructions)

Our next question comes from the line of Linda Tsai with Jefferies.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

In terms of the comments that 1Q would see a bigger benefit, I think, from prior period, collections. In terms of the percentage of that 1Q will comprise what would that look like? I think in the past, it's ranged from like 23% to 25% in recent years pre-Covid.

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

Yes. I'm going to go back to the comments, Linda, and just kind of leave it there, but we're coming off an $18 million Q1 charge from bad debt or uncollectible lease income in Q1 of '21.

And recall, Q4, we're down to about $2.5 million of a quarterly charge, which could replicate in Q1 '22 could improve as we continue to see improvements in cash collection rates. So that's going to be the difference. And what we wanted to do is very -- was be mindful of the fact that there's going to be continued variance in that percentage.

And that Q1, there's a probability that Q1 could have a rate of growth that's higher than the top end of our range and will flow back down to within our range over the course of the year.

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

And then just in terms of higher energy costs and consumers staying closer to home, sorry about the drilling. Are you seeing any bifurcation between the high and low end consumer in terms of spending strength?

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

We don't -- I mean we have a pretty consistent investment philosophy. We don't actually have that wide of a kind of a range, if you will. But I think it is more about suburban close to home than it is necessarily about the high-end and low-end consumer.

Dollars are being spent within a relatively small circle around consumers' homes. Although travel did pick up to, I'm sure you've seen that as well in December of 2021, topping 2019. So we are seeing the return of the consumer despite inflationary headwinds. The consumer is spending.

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*

Thanks to your team for all the detail, really help me narrow down some of the gap between my expectations and your guidance. But I did want to sort of maybe dig into one other area or 2 other areas along those lines. On the higher period rent guidance number. Is there an upside to that number that you can quantify for us that could happen in 2022?

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

It's a great question, Chris. Let me show you where to look and then we'll talk a little bit about prospects. So we have $13 million of prior year collections, plus or minus in the plan. If you look at our reserved AR again on that very helpful Page 34 of the supplement, it's $50 million.

So that's, in effect, largely cash basis reserves. I'd be very careful to think about that as a maximum potential collection opportunity. We've talked at length through '21, and we believe this into '22 what's remaining to be collected and what has been reserved is largely for Regency, a West Coast

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

shop space, local type of lean -- we like the tenants we had in those shopping centers, pre-pandemic. We continue to like those users and those tenants post and the team, as directed by Jim, is going to probably more diligently use abatements as a tool. They were down for longer. The hole was deeper, why go through the pain and the cost of replacing a tenant and absorbing the downtime in the capital.

So that is -- I would just -- some caution as we think about what is the outperformance potential of that $13 million assumption? That being said, it's been a hard number to handicap into '21. Clearly, I think our initiating guidance in '21 was sub-$10 million, and we ended up at $46 million.

So I fully -- it's a tough number to get arms around. We've done -- we think 13% is a really good estimate. Importantly, we've collected about nearly 30% of that through January. But as time goes on, that collection rate will continue to grind down.

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

Okay. That's really helpful. And then just thinking about your cash basis tenants, any -- again, relative to what you were able to collect on a percentage of billings last year. Was there any delta to that in terms of your guidance assumptions for '22?

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

On the cash basis collection rate?

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

Yes.

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

I mean, again, that's going to come through our ULI assumptions initial from '21 into '22, but we're collecting 94% on our existing cash basis tenancy, which again, today is 17% of our overall ABR. That is a pretty healthy ramp. That's on current billings. I don't want to -- don't take that 94% and apply what we just talked about from a prior previously reserved amount.

But we are -- if you think about what I said from a ULI perspective, that would imply going from 175 basis points of bad debt to -- in the 100 area, that would imply that we think our cash basis collection rate is going to improve from here. So we feel good about growth starting in '22 and beyond and moving occupancy in the right direction and moving uncollectible lease income in the right direction and moving commenced occupancy in the right direction.

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

And then Jim, just wanted to follow up on the permitting delays question or is that mostly a West Coast phenomenon, or is there -- is it more widespread than just the West Coast?

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

I would -- Chris, I would say it's probably more predominant on the West. As they've been the slowest to recover, they're kind of -- they're laggards on things like this. So in most of the country, we're getting better service. And quite frankly, the West is catching up very, very quickly in all the major metrics. So I feel like there that too will get cleaned up here pretty quickly.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Okay. And last question, Lisa, on your acquisition underwriting, and this may be way premature, but just wanted to understand, given the backdrop of inflation, does replacement costs become part of the underwriting criteria at this point? Or are we well away from that?

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

It really doesn't. And the way we -- when we are looking at evaluating opportunities, we are certainly just looking at what is the NOI growth profile, if you will. So the going-in return plus growth. So essentially getting us to our unlevered IRR or a total return because our intent is to hold these assets forever.

Operator

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

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

Maybe just following up on Chris' question. What is happening with that bucket of tenants that is giving you confidence in collecting that $13 million of prior period rents? And maybe what isn't happening with the remaining portion that doesn't give you confidence in collecting that? And does that full $50 million remain in occupancy today?

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

Yes. It's really timing, Tammi. And Jim has hit on it, and we've hit on it kind of repeatedly through '21. It's the West Coast just being a couple of months, 3 months behind. And it was a very deliberate snowflake tenant-by-tenant approach that Regency is employed into working through and resolving outstanding obligations.

So we worked through a large component of what was an original $85-or-so million reserve on 2020 rents looking back at year-end into the rapid -- more rapidly recovering on the East Coast, specifically the Southeast moving into the central more rapid recovery. And now the West behaviorally has been very similar to those regions.

But again, the difference has been just the time that they were down. The hole that was dug was deeper. And it's just -- we've made the assessment that it may not be appropriate to chase after previous rent at the risk of future rent. And again, making these -- literally case-by-case going back through your rent rolls, do you have the right operator? Do you have the right use? Do you want this use in your space going forward? And do you want to avoid the downtime? I think I'd leave it at that, Tammi, for the color as to why that, that -- why that difference to the $50 million exists.

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

I think when you look -- to me, when you look at the cash collections and where we are in the West Coast at 98% and you look at some of the tougher categories, the personal services up to 97% collection. You're looking at fitness up to 95%. That -- the way I interpret that is we have picked the ponies we want to ride going forward. And to Mike's point, we are now in the delicate balance of how much more do you want to push on collecting really old rents. And we're looking more forward than we are backwards quite frankly.

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

No financial impact because of the reserve right.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Got it. That's helpful. And then just one more. I'm thinking about the 1.3% annual contractual rent increase in embedded in same-store NOI growth. I know, Jim, you mentioned 2% on new leasing activity. I guess are you able to drive that portfolio level higher over time, particularly given the inflation levels today.

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

We hope so. But Tammi, it's a tough mountain to move. We have long targeted 1.5% at the upper end of our ability to get there over time, and it's going to take a lot of time, to Lisa's point earlier, only turning about 10% of your portfolio annually. What's happening is we've had such great success over the last 8-plus years embedding contractual increases into the majority of our shop spaces really that as those tenants are replaced with new tenants, you're just replacing like-for-like contractual increases.

So that is the ability to push that number really ends up coming down to your recapture of anchor spaces and your ability to embed contractual increases there. So 1.3% today, a really healthy number. It's moved off of 1.2% over the last several years. 1.4%, I think is visible and 1.5% is an ultimate target, but that's going to take some time to get to.

Operator

There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

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

Thank you. I just want to thank you all for your time. It was a long 1 this morning. And I look forward to seeing hopefully most of you live and in person this year. Thank you.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022, Refinitiv. All Rights Reserved.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV