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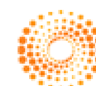

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PRESENTATION

Operator

Greetings, and welcome to the Regency Centers Corporation Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

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

On today's call, we may discuss forward-looking statements. Such statements involve risk and uncertainty. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements. Please refer to our filings with the SEC, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements.

We will also reference certain non-GAAP financial measures. We provided a reconciliation of these measures to their comparable GAAP measures in our earnings release and financial supplement, which can be found on our Investor Relations website.

Now before turning the call over to Hap, I would like to give you a quick overview of today's call as it will be a little different: first, Hap will take you through our 2018 highlights and strategic objectives; Jim will then discuss portfolio fundamentals, followed by a walkthrough of the components of same property NOI growth and 2019 same property NOI guidance; finally, Lisa will present are 2019 earnings guidance and [roll] forward.

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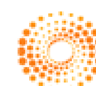

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We'll be utilizing a slide presentation for a portion of today's call. You can view the presentation through the webcast link or in the Presentation section of our Investor Relations website at regencycenters.com. Hap?

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Thanks, Laura. Good morning, everyone. Regency's exceptional team produced another year of sector-leading performance. Through the team's talent and efforts, we executed our proven strategy by proactively and creatively managing our portfolio, building value through development and redevelopment, fortifying our balance sheet and cost-effectively funding new investments.

Highlights from a successful 2018 include: same property portfolio was at 96% leased; and NOI growth at or above 3.4% for the seventh consecutive year. We expertly executed on our capital allocation strategy which starts with reinvesting our $170 million of free cash flow in modest level of sales of lower growth assets and a nearly $200 million of developments and redevelopments.

Acquisitions with superior growth prospects and nearly $250 million of share repurchases at an average price of less than $58 per share, all supported by Regency's blue chip balance sheet.

This year also marked an important milestone with the release of our inaugural Corporate Responsibility Report, which showcases our environmental, social and governance initiatives And notably, growth in core operating earnings, which eliminates certain onetime and noncash impacts, have compounded by 7% over the last 3 years. This translated into roughly comparable growth and cash available for distribution and in turn, increases to the dividend by over 5%, both in 2018 and for 2018 at a low payout ratio.

Retailers continue to clearly demonstrate that physical stores located in top trade areas in thriving centers remain a critical component of a multichannel strategy. Even though retailers are being delivered and cautious with expansion, there's really good demand for the limited amount of vacant space in our centers, and renewals are robust. We are committed to ensuring that our shopping centers remain relevant and convenient distribution channels for successful retailers that will prosper in the evolving marketplace.

Our ongoing accomplishments demonstrate the effectiveness of Regency's time-proven strategy to distinguish the company by effectively employing a combination of unequaled strategic advantages to successfully achieve our objectives. Our high-quality portfolio, intense asset management and Fresh Look philosophy will position Regency to average same property NOI growth of 3%.

Our experience development and redevelopment capabilities will enable us to deliver over $1.25 billion in developments and redevelopments at attractive returns over the next 5 years.

Our pristine balance sheet and growing free cash flow will cost-effectively fund new investments, while providing financial flexibility and access to capital through future cycles as we target debt-to-EBITDA of 5x.

I am extremely confident that collectively, these capabilities will be expertly employed by our amazing team to sustain earnings, cash flow and dividend growth, and in turn, total shareholder returns that are consistently at or near the top of the shopping center sector. Jim?

James D. Thompson - *Regency Centers Corporation - Executive VP of Operations*

Thanks, Hap. I'm extremely pleased to finish another year with solid same property NOI growth, supported by our high-quality portfolio and executed by our best-in-class team. 2018 same property NOI growth of 3.4% was driven by a strong 3.7% contribution from base rent. As we've discussed on previous calls, offsetting base rent growth was the anticipated onetime impact from tax reassessments that were triggered by the Equity One merger where we are absorbing almost 2 years of supplemental real estate tax expense.

This onetime event impacted our 2018 operating margins. Going forward, we expect to operate at more normalized margins.

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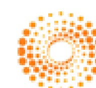

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As Hap indicated, Regency's portfolio continues to experience healthy demand from top retailers. That said, while retailers continue to be discerning with new store openings, we feel they are making rational decisions that will contribute to healthy supply and demand.

As it relates to the Regency Centers, we continue to experience positive and stable trends in moveouts, bad debt and AR, and we attribute to the enhanced quality of our tenants.

Rent spreads have settled in the high single digits. At the same time, we're benefiting from successfully incorporating contractual rent increases into leases.

Overall, our constructed view of the retail landscape, combined with the underlying fundamentals of our portfolio and the prospects from our redevelopment pipeline, support our expectation to average 3% plus same property NOI growth over the long term.

With that said, I would like to turn your attention to Page 3 in our presentation and beginning with the reminder of the components to get us to our 3% plus same property NOI growth objective. Please follow with me on the left side of the slide.

First, embedded in the portfolio is 1.3% of growth coming from contractual rent increases. Then another 1% to 1.2% come from new and renewal leasing rent spreads. Combined, these provide approximately 2.25% to 2.5% of growth.

Next, given the portfolio is well-leased at 96% and 94.5% rent paying, incremental gains from occupancy at these levels should not be expected.

Finally, the contribution from redevelopments has typically averaged 75 bps of annual growth. This growth can be uneven due to the size and timing of redevelopment deliveries. Together, these components equate to our strategic objective of 3% plus average annual same property NOI growth.

Now I'd like to shift your attention to the right side of the slide. As we indicated in our third quarter call, we expect this year's same property NOI growth to be in the range of 2% to 2.5%, resulting from a couple of short-term impacts.

Looking at rent paying occupancy, we have 1 Sears and 2 K-Mart boxes. Two of these leases were on the initial closure list, half closed and are likely to be rejected. We understand the third box is included in the approved bid for 425 locations and could continue operations. Even so, we still plan to get this box back.

Based on the current strong interest from much better operators, we are really looking forward to getting control of the boxes.

In addition to Sears, we have incorporated a prudent level of moveout assumptions, and this combined impact is estimated to be slightly more than 50 basis points to same property NOI growth.

Additionally, as I've mentioned before, the redevelopment contribution to NOI growth has been and will continue to be uneven at times. This could especially be the case given our larger, more transformational projects, the uneven impact from taking NOI off-line as well as the timing of completions is simply a part of making the right decision to sustain NOI growth and maximize long-term value.

In that vein, this year, the contribution is expected to be minimal. More importantly, we are extremely excited about the quality of our expanding pipeline and look forward to enjoying the contributions to growth that will come from these projects in 2020 and beyond.

The inherent quality of the portfolio, the visibility of the pipeline and the focus of the team combined to make me feel really good about the prospects going forward to average 3% NOI growth.

I'll now turn it over to Lisa to continue our 2019 guidance discussion.

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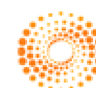

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Lisa Palmer - *Regency Centers Corporation - President, CFO & Director*

Thank you, Jim, and good morning, everyone. First, I'd like to echo Hap and Jim's sentiments around the successes achieved in 2018. It was another extremely gratifying year, and the team should feel exceptionally proud of their achievements.

We're continuing the slide deck, and I'll take you to Page 4, where you will find our initial 2019 guidance. For 2019, our FFO per share guidance range is at $3.83 to $3.89. This includes a $0.05 per share impact related to the new lease accounting standard or certain leasing costs that were previously capitalized will now be expensed in G&A.

As I've said before, while this accounting change does impact reported earnings, it does not impact AFFO or cash flow, does not have a true economic impact on the business, and will not influence our structure or compensation strategies.

Beginning this year, we are only providing NAREIT FFO guidance, as we believe this is the best metric available for comparability across the sector. At the same time, we will continue to measure and report the performance of our business using core operating earnings, which eliminates certain nonrecurring and noncash items. We previously referred to this metric as operating FFO but going forward, we'll refer to this simply as core operating earnings.

Next, as Jim just said, same property NOI growth is expected to be in the range of 2% to 2.5%, which incorporates near-term headwinds related to Sears, K-mart as well as a muted contribution from redevelopments in 2019.

From an investment perspective, we expect to start $150 million to $250 million of developments and redevelopments this year, and we have good visibility into executing our plan to start $1.25 billion to $1.5 billion over the next 5 years.

Our acquisition guidance reflects the recent closing of Melrose market, an exceptional center in a near urban neighborhood of Seattle. The disposition guidance of [plus-or-minus] $200 million includes $75 million of property sales that carried over year end, all of which, I'd like to note, have already closed, as well as additional sales to fund our fourth quarter share repurchases.

Moving to net interest expense, 2019 is expected to be lower, primarily driven by the accretive refinancings executed last year when we proactively took advantage of low interest rates.

The G&A, as I mentioned earlier, G&A for this year incorporates a $0.05 impact or approximately $8 million related to lease accounting. On an apples-to-apples basis, net G&A is essentially flat year-over-year.

Finally, noncash items are expected to be -- to decrease from $55 million in 2018, to a range of $41.5 million to $43.5 million in 2019.

As a reminder in 2018, we recognized a $6 million, onetime noncash item in income related to the acceleration of a below-market rent balance for the 1 Toys "R" Us box that we acquired at auction.

Moving to Page 5, which is our guidance roll forward, I'll highlight a few things. First as always, NOI will be the primary contributor to earnings growth, contributing $0.16 to $0.20 per share. This includes organic growth plus $0.07 to $0.08 per share from NOI coming from development completions.

Secondly, we're providing you with the incremental impacts of transaction and funding activity, including our opportunistic repurchase of nearly $250 million of our stock in 2018.

Lastly, I think it's important to note that after adjusting for certain nonrecurring and noncash items, even after the impact of the Sears bankruptcy and the muted contribution from redevelopments, core operating earnings per share are expected to grow by 2% to 4% in 2019.

Turning to Page 6, I'd like to quickly review our funding model. Today, we are generating approximately $170 million of free cash flow after capitals and after dividends. Also our strategy of selling a modest amount of lower growth assets has and will continue to fortify NOI and NAV growth.

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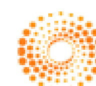

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Together, free cash flow and dispositions fund our developments and redevelopments, acquisitions with superior growth prospects and at times, repurchases of our own stock, again, when the pricing and the trade are compelling as they were in 2018.

It's worth emphasizing that the amount of free cash flow that we generate enables us to finance our development and redevelopment spend on essentially a leverage-neutral basis.

We've also summarized our 2-year capital allocation on the right side of this page. Over the long term, we expect net investment activity to contribute 100 to 200 basis points to our earnings growth, this along with growing same property NOI by 3-plus percent will translate into core operating earnings growth off 5-plus percent. As we look forward to 2019 and beyond, we remain confident in our ability to continue to deliver earnings and dividend growth and total shareholder return at or near the top of the sector.

That concludes our prepared remarks, and we now welcome your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Nick Yulico with Scotiabank.

Nicholas Philip Yulico - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Based on your free cash flow expected dispositions and limited acquisitions, it seems like you have plenty of funding for redevelopment and development. So I guess can you just tell us what's your expected spend there? And how you're thinking about as well if you have leftover cash, what you'd be using it for?

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

So as you indicated, $170 million of free cash flow funds are development program -- our development spend, which is $200 million plus and hopefully, it's closer to $300 million, but -- so that -- and that will contribute 200 basis points to our earnings growth up as Lisa indicated. And then in addition to that, we can decide that does it make sense to recycle and, in fact, sale dispositions, sell lower growth assets in the extent that we sell lower growth assets, we make a decisions, does it make sense to invest in covered land place, acquisitions with meaningful redevelopment opportunities or acquisitions just for superior growth prospects and/or buying back our stock if the trade we think is favorable as it was when, in fact, our implied cap rate was north of 6%. Obviously, the tax impact of selling assets is going to play something in that. And I think it's also important to note that we front-end loaded $125 million of stock buyback, when we bought the stock back in December. So and the fact, we've got dispositions planned that are going to occur through the remainder of the year that are going to be basically fund the stock buyback. And then once that's completed, we'll make a decision, does it make sense to selling additional properties or does it make sense just to stay intact, because one other interesting thing for -- and it's important to note is, from Regency's standpoint, even though we'd like to recycle properties and like to enhance the growth rate and sell lower growth assets, that's something, that's nice to have, it's not a must from that standpoint.

Nicholas Philip Yulico - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay, it's helpful. And then just looking at the TIs, they were up meaningfully last year, over 30%. What drove that increase in? And how should we think about the level of spend in 2019? I guess specifically, related to like a recurring CapEx expectation for this year.

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

I'll let Jim answer the opening question with regards to what happened in '18. And then I'll take the latter part.

James D. Thompson - *Regency Centers Corporation - Executive VP of Operations*

Yes. On '18, Nick, what we -- really we performed better as expected. I think the only thing I'd not would be a little bit of tick up in Q4, which was a driven by a couple anchor deals that were really relocations, which is a little unusual but relocations within the existing centers which were a little expensive. But when you look at the full 12 months of '18, we're actually, 15%, 16% lower than '17. So our spend, we feel really good about the spend, and I think we're prudent with our dollars from the capital side on leasing.

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

And I -- so going forward, so '18 had some unusual activity, which pushed our percent -- as a percent of -- and our total capital spend as a percent of NOI above normal run rate. So we've been in the 10% to 11% of NOI range. But going forward, that will drop to 9% to 10% as a result of the lease accounting standard change. So that was leasing commissions that were previously capitalized are now expense that will be in G&A, and that has the result of our reducing it down by 5%.

Nicholas Philip Yulico - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay, thanks. And I just want one other clarification on guidance, Lisa, you went through some of the noncash items. You had the benefit last year from Toys "R" Us. And even if you remove that, you have your noncash revenue going down $5 million to $7 million. I mean, is that just all related to burn off of leases as they -- as you get through them from the Equity One merger? How should we think about that ongoing impact to your reported NAREIT FFO this year and in future years?

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

Just to be clear, the decline, about half of it was related to the onetime $6 million charge that you mentioned. So after that, the remaining 50% -- of that remaining 50%, half of that, so 25% in total, is a reduction in the benefit from debt mark-to-market amortization. So then the remainder is a reduction in straight-line rent income, primarily with a little bit of the below market rent. And going -- so going forward, we would expect, and we did mention this to you all when we did complete our merger with Equity One and we booked the large below market rent balance, if you will, that it would create headwinds for a period of time. And so going forward and for a significant period of time, because the remaining lease term on some of these is actually 20 years. We expect that the decline would be closer to $1 million to $2 million annually for the foreseeable future.

Operator

Our next question comes from the line of Jeremy Metz with BMO Capital Markets.

Jeremy Metz - *BMO Capital Markets Equity Research - Director & Analyst*

In terms of the same-store guide, you're not looking for much redevelopment contribution. You mentioned the offset being NOI coming offline from some of the larger redevelopments. Jim, you had mentioned this can be lumpy. So thinking this through, how much of this have you already pulled offline versus what's still to come and maybe some color on what that means for your same-store NOI cadence or as we go through 2019?

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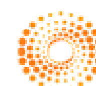

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Lisa Palmer - *Regency Centers Corporation - President, CFO & Director*

Just reiterating again, and thank you, Jeremy, you've sort of put it out there for me in terms of how uneven it is, and that when you do look at -- we've been proactively managing our properties and redeveloping them through active asset management to increase the NOI for a really long time. And if you look at the annual impact, it has -- it's been a wide range, but it has averaged about 75 basis points. And what is unusual about this year, we'd still have some good stuff coming online that we've worked on in the past few years. It is -- there's a larger percentage coming offline. So in the past, they've really -- the offset wasn't equal. We've had more coming online so more of a benefit than what was coming offline, and this year it's just that we got a couple large projects, the most significant being in Boston, which is The Abbott. And I'm happy to have Mac or Jim give more detail on that one. But after this year, we also have another one that's in the pipeline that's really significant, which is Costa Verde. And we do expect that in the very near future, we're going to be pulling almost $5 million of NOI offline for that one. So we will continue to have this happen. But we believe that we will average 3%, same property NOI growth over the long term, and we will realize the benefits of those that are coming offline so that in those years, we will go above 3%.

Jeremy Metz - *BMO Capital Markets Equity Research - Director & Analyst*

I appreciate that. And then on the occupancy front, your shop occupancy was down year-over-year, box occupancy was actually up. Your guidance overall is calling for some further pressure here. I think you have about 60 basis points of headwind baked in. So how much of that is lower box versus shop occupancy in that? And maybe how much of this is known vacate today with the K-mart and the mattress firms versus an expectation for further tenant fallout?

James D. Thompson - *Regency Centers Corporation - Executive VP of Operations*

Jeremy, I'll give you some color on the shop fallout, if you will. Quarter-over-quarter, the 30 bps was, effectively the BK of mattress firm was about 10 basis points and Erin brothers, we proactively recaptured that space with offsetting termination fees, so that's 20 bps. And the remainder was -- is, quite frankly, in '18, we took a very, very aggressive Regency proactive merchandising asset management philosophy and really attacked this -- primarily the side shop business and cleaned up the portfolio, recapturing space to create upgraded merchandising opportunity in the future and, basically, just get that portfolio working as the rest of the portfolio has been in the past. As far as -- going forward, the major metrics that we're looking at from a historical standpoint, we're -- we continue to be 96% leased. We're seeing the pipelines are continuing to be very solid. Our major metrics of AR, bad debt, rent relief request are on par with historical measures. So we feel the market is really solid. It continues to perform well, and we think the 92%, from a shop standpoint today, is a very, very solid 92% leased.

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

And just to clarify what Jim said, absolutely, he left out just one thing and that is that when cleaning up the side shop space, it was actually in the -- mostly in the properties -- it was in properties that we acquired from Equity One. So the integration, kudos to the team, was extremely smooth. And yes, we closed it in March of '17. But when you are merging with the company, it takes time. And it took us time to really understand and get comfortable with the portfolio, and '18 was when we really did attack, as Jim said, the quality of the tenant base, and proactively kind of weighted out 1 week or 2 if you will, to bring to the quality standard that Regency likes to operate.

Operator

Our next question comes from the line of Craig Schmidt with Bank of America Merrill Lynch.

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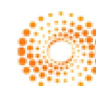

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Craig Richard Schmidt - *BofA Merrill Lynch, Research Division - Director*

I guess, I'm taking a kind of a broader look. It was about 2.5 years ago, we saw Sports Authority closed. Since then, we've had headwinds, and it sounds like 2019 is going to have headwinds as well. Are you seeing an end of this process, particularly, given how strong the consumer was in '18? Or are we kind of looking at a new norm here?

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Craig, I would say that anecdotally, I think there's been a meaningful leading out. But you got to -- some of this is just part of the business. There have, as you know, I mean having followed the business for as long as you have, there has been and always will continue to be tenant failures and the key is to try to align yourself with the better best-in-class operators to get it, and have the dollars to -- and the -- financials wherewithal to invest not only in technology but in store experience and value, et cetera, and that makes up the lion share of our portfolio, but at the same time, we're going to continue to be tenant failures. But I don't see anything in the horizon that say it's going to -- I think we've had a little bit of an anomaly. But that's as I said, that's part of the business. We've averaged over between 95% and 96% leased over the last 5 to, 6 even throughout this whole process of Sports Authority, Sears, and we expect and we have strong interest on the Sears box. So we feel good about our ability and good about tenant demand and our ability to maintain occupancy in the 95% to 96% range and average 3% plus growth over the long term. And like also, the other thing is having locations where when bad news does happen and it does happen, where it's going to be good news, or we can upgrade the merchandising (inaudible) Sears, and more often than not, also replace it at higher rent.

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

So when you're talking to your leasing team, do they feel that generally, beyond these sort of outliers that they are feeling, like, that they want to open more stores, feeling a little bit more aggressive?

James D. Thompson - *Regency Centers Corporation - Executive VP of Operations*

Yes, Craig. I would say that we continue to see growth in really all the sectors. The better retailers continue to grow their platforms. We've seen that growth migrating towards better real estate. And again, I think that's the sector that plays to our strength, but we're seeing across the board good activity, good growth among the retailers.

Operator

Our next question comes from the line of Christy McElroy with Citi.

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

Just on Sears, regarding that third box that you still hope to get back. It seems like from what's coming out that they are willing to sell or close some of those going concern stores. What's sort of your early read of the process there? What's happening? It sounds like you feel pretty good about being able to recapture that box.

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Christie, I'm not sure, I feel really good about it like If we were (inaudible) it. I guess I'm taking the stance that we have a 50-50 shot that it's going to be in play. The whole process has been a little bit of filing bankruptcy to save a lease, but we strongly believe that the 2 that are closed and have been on the list since the beginning will be rejected, we suspect in the near future. And that keeps us kicked off on those 2 redevelopment opportunities. The third one, we've had a lot of good activity with retailers as well. And quite frankly, if they end up trying to spend that and sell it,

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we may be in a bidding war to try to capture that real estate ourselves. So we'll just have to wait and see. But we like all 3 locations, and we know 2 of them. I feel confident 2 of them are going to come back our way, and let us get all the life.

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

Okay. I get that it's a fluid process. And then just giving your willingness to do M&A in the past, what would compel you to do another deal? I mean it seems like you have enough in the pipeline here for the next 5 years or so with $1 billion to $1.5 billion of opportunities. But what factors would make M&A or road that you would go down again?

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Well said. Being able to sustain 3% NOI growth, delivered $250 million to $300 million of developments, redevelopments a year should translate to 5-plus percent earnings growth. That's there. And I would say that as we said even before Equity One, bigger is better and better is best. We did feel that Equity One made us a better company. It's at a very high bar. When you think about it, it got us into markets where we -- expanded our presence in key markets, Boston, New York and Miami, expanding our presence in markets where we had a meaningful presence, Atlanta and LA and San Francisco, where the demographics were consistent and accretive. It was accretive to our NOI growth rate. It provided a robust redevelopment pipeline, and we're able to do that on a leverage-neutral basis, which I think, given where we are in the cycle, I think that's critically important to make sure that our balance sheet remains very, very strong. So -- and we're able to generate significant synergies and we've realized those and integrated not that it was easy but integrated it with not too much of a distraction. So that's a high bar that for any future -- that we would apply to any future opportunities out there.

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

And just for clarification on that 3% same-store growth as you embark on some of these larger mixed-use densification projects, will projects like Town & Country and Costa Verde, will they be included or excluded from the same-store pool?

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

Well, Town & Country, we've just recently acquired. So that will be -- that will not be part of the same property pool. Costa Verde, I mean we've been discussing this pretty in-depth internally. Because of the magnitude of it, it really is different than even some of our larger ones, like say for example, I've mentioned the ADA, I think we have $1 million coming offline this year, $1 million plus. But Costa Verde is $5 million. And because of the (inaudible) we at this point in time, we're planning on removing it from the same property pool, but we'd be very clear with that, we'll be very transparent. Doing it because we believe that it really dilutes sort of the quality of the metric, if you will, for what you all...

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

If you can take it offline...

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

And well, yes. So we won't to get the benefit when it comes back on either. So that's the -- that is the reverse side of the coin. So we won't get -- we won't take it down but we also won't be adding it back when we bring it back online. Beyond Costa Verde, at this point in time, we're planning on including -- keeping everything else in the same property pool.

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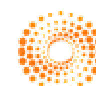

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Operator

Our next question comes from the line of Richard 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*

Sorry about that guys , I was on mute. I wanted to follow up on Christie's comment about M&A, but maybe taking a little bit of a different direction. Hap, you'd mentioned may be covered land place, development opportunities, you're obviously generating a fair amount of NOI of of development and redevelopment. Is there any areas of the country that maybe you're not in right now where you might want to get in? And you could do that and maybe that would lead to more full-scale M&A? How are you thinking about that? So I guess the question I'm asking is, is there any areas in the country that you're not currently in, or we're having small footprint and that if you could you would make a bigger splash?

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Well, I mean we -- when you look at the canvas, under which we're able to own, operate and develop, it includes -- we really, really like it, and we already have a meaningful presence in those markets. I mean it includes Gateway market, San Francisco, LA, New York, Miami, Chicago. It includes 18-hour cities like Atlanta and Houston. It includes stem markets like Seattle, Austin and (inaudible), through its growth markets like key markets in Florida, could've include San Diego and Denver and the stem markets are in the growth market. So we already have -- and we have market offices in a lion's share of those 2 dozen markets that we're in. So you could -- we could average, so to speak, enhance our presence in some of those markets where we don't have as bigger presence today. But I'm not sure if it's going to be an opportunity or it's going to totally drive a major merger. And I just -- I want to say that you're always -- you don't take your eye off the balls. You want to keep your eye, kind of keep the eye on the ball as far as your basic business. You don't ignore which maybe out there, but our bar is very, very high. And we feel really good about the markets we're in. We feel really good about our future prospects. And it would take something pretty meaningful to cause us to do something, and I don't see an opportunity out there that would say, okay, we've got 3% of our asset footings in Boston today that we'd take it to 6%. I mean I think we're going to grow that from the redevelopment and development of projects like the ADA.

Operator

Our next question comes from the line of Derek Johnston with Deutsche Bank.

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

I was just going to follow up on the Sears question briefly. Could you, and you might have mentioned this, but can you remind us of the mark-to-market potential on this Sears boxes? And you said there was some interest. Would this be a single tenant or would you be breaking them up? What are you thinking there?

James D. Thompson - *Regency Centers Corporation - Executive VP of Operations*

We've got, Derek, we're obviously investigating several different redevelopment opportunities. And as we always do, we would expect those redevelopment opportunities to fall into the 7% to 9% return range. As to some of the interest, TJX, HomeGoods, REI, Burlington, we've got 2 of the centers that have very highly productive grocers that have expressed interest in expansion or total relocation within the redevelopment. So we're pursuing a lot of different avenues at this point. But suffice to say, the level of interest and activity is very, very strong. And -- so we're just -- we're ploughing through that to really figure out the best long-term direction to create the most long-term value and to build a remerchandising centers to bring them up to par.

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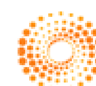

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Derek Charles Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And then I guess my second one is how do you see recycling as far as the bottom tier, noncore, 1% to 2% of assets annually? And utilizing those proceeds for developing and redevelopment spending, you guys already have a best-in-class demographic metrics now. At some point, do you think there's a level of diminishing returns here? And particularly, in terms of the resulting same-store NOI and FFO growth, so at what point does it become a less attractive funding mechanism? And is this the reason for share repurchases?

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Well, I think the key thing that starts with $170 million of free cash flow, which basically funds $200 million free and clear and confirm that $300 million -- $250 million to $300 million of development and redevelopment of spend on, essentially, on leverage-neutral basis. And then we take a look at capital recycling starts with assets that are lower growth assets. And as I've said earlier, this is not something that we have to do given the inherent, as you indicated, and thank you for indicating it, the inherent quality of the portfolio. So -- but we have made that decision, and we'll continue to evaluate it. And it has been a key part of our strategy, but it is -- it's an optional part of our strategy. And we will continue to evaluate other assets that we want to sell, where there's meaningfully low growth, is our better opportunity to reinvest that capital, either in a shopping center with higher growth -- much higher growth profile, with some type of future redevelopment opportunity or maybe a covered land play. And then the opportunity, as we did at the end of last year, where in fact we front-end loaded it, but where we sold stock on the basis of the visibility that we think that we can so we're selling like properties like meaningfully almost eliminating our position in Louisiana and buying stock on that basis. So on a favorable trade basis. So I think we have all of those arrows in our quiver, but it starts with, gosh, we've got this great amount of free cash flow that can fund our full development and redevelopment capital, which is the best -- highest and best use of our capital.

Operator

Our next question comes from the line of Wes Golladay with RBC.

Wesley Keith Golladay - *RBC Capital Markets, LLC, Research Division - Associate*

I just wanted to go back to the major redevelopments. I thank you mentioned that Abbott $1 million that we've seen this year, Costa Verde, $5 million. But in the background, we see Town & Country occupancy is really low there. Peachtree is also well below the Regency average. So I'm just wondering how much of the dilution from the pipeline for the redevelopment, is it going to be in 2019, and it will be less of an issue in 2020?

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

Again, so are you talking, Wes, about general occupancy, because Town & Country is not same property NOI. And then Peachtree, that's not going to hit even 2,000 -- sorry, we haven't even started our project yet. And we did provide additional disclosure in the supplemental on some of the stabilizations of our redevelopments and even redevelopments will take time. So I think it's just most important that while 2000, to remember that, while 2019, as we do expect to return to 3% plus in the very near term, which in terms of, in 2020, and that will be because we will be getting some contribution from redevelopments that will be coming online. So I'm not sure if you're asking about NOI or occupancy.

Wesley Keith Golladay - *RBC Capital Markets, LLC, Research Division - Associate*

Put it on total NOI. Looking at the occupancy, following at some of these properties that are teed up for maybe 1, 2 plus years down the road, looks like some of the dilution is already happening this year. This year, we have some of these big projects that will have up to $5 million of NOI being taken offline. So to me, it seems like we have a little bit of front-end load on this redevelopment pipeline, disproportionately impacting 2019 from a total NOI perspective. And that's where I was trying to get at to see to if like when we get to next year, because you haven't...

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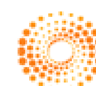

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Lisa Palmer - *Regency Centers Corporation - President, CFO & Director*

Absolutely. You just said it better than we said it in our prepared remarks. Thank you. I mean that's exactly what's happening in 2019. Very well said.

Operator

Our next question comes from the line of Vince Tibone with Green Street Advisors.

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

Can you discuss trends in cap rates in the transaction market? Have you noticed any changes over the last few months?

Unidentified Company Representative

Vince, I'm happy to answer this one. Let's start with the selling side of it. What we're selling out there is being widely accepted by the market. We've had -- we're transacting, and buyers are cooperating at the contract prices. We haven't seen a lot of retreating going on. We have seen some more money being raised out there to buy commodity-type assets, which is typically the stuff that we're selling. So not a material or meaningful change in cap rates, it sort of depends on the market. But really pretty steady that's out there. On the buy side, as you've probably heard from others, not a lot in the market. Typically, high-quality properties with high-growth profiles that we look for, there's not a lot that's being traded. So cap rates have remained quite low on those. Example would be Melrose market that we recently acquired up in Seattle. It got a low going in cap rate but a very impressive growth profile in excess of 3.5%. So a good IRR on that one and a terrific location. But no real change in cap rates over the last quarter or 2 quartersPretty steady, I think.

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

That's helpful color. Thank you. One more for me. I mean you mentioned there were some relocations in the fourth quarter. Do you expect retailer relocation activity to pick up going forward as retailers may have more options in a market following recent bankruptcies?

James D. Thompson - *Regency Centers Corporation - Executive VP of Operations*

That's something it's a little bit of business as usual. I think you're always going to be faced with tenants taking an opportunity to rightsize, et cetera. But again, I think that the bigger overriding factor is the flight to quality. So that's -- again, it's kind of business as usual, it's what we've seen forever. And it's -- we just try to be ahead of the curve. And when we see things coming, be prepared to hopefully react positively and take the best of what the market gives us.

Operator

Our next question comes from the line of Omotayo Okusanya with Jefferies.

Omotayo Tejamude Okusanya - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

Most of my questions have been answered. It's more of a broad one I have, just around retailers and this need for them to kind of have physical stores on a going-forward basis, a very popular topic on the mall side. I don't have quite as much about it on the shopping center side. But just curious, how you guys think about that, if there any concepts out there that make sense for you to be aggressively quoting?

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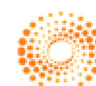

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Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Sure thing. Well, it's no surprise, you read all the different reports out there on how many digitally made up retailers are expanding into bricks and mortar and the connection between their digital sales by having a physical footprint. It's a difference maker, and we would expect that trend to continue. But you're right, it's not talked about as much in our sector. We're seeing little bit of -- little signs of it. But these digitally made up companies are in the early stages of growth. If you look at their store count, it's still pretty low in a per market basis. Amazon's another digitally made up company that is expanding. You've seen their announcement on how they are expanding on a national basis. We're keenly looking into that. So I think that's probably the best example of how we could and will impact our space in a positive way.

Operator

(Operator Instructions) Our next question comes from the line of Linda Tsai with Barclays.

Linda Tsai - *Barclays Bank PLC, Research Division - VP & Research Analyst of Retail REITs*

For the 7 acquisitions you made in 2018 were anchored by Whole Foods, I'm guessing this is not a coincidence. And then you also have 2 new Whole Foods under redevelopment. Do you have a view of how much NAV accretion or cap rate benefit Whole Foods adds to the center?

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

Well, I would definitely say we're a big fans of Whole Foods. We -- It's not just us, it's the side shop retailers that really embrace their presence in the shopping center, and they still command the highest rents, rent growth and quality of side shop retailers. So that's one of the reasons we like them. Those centers and redevelopments are also in terrific demographics, which Whole Foods gravitates towards. So it's no surprise that we do a lot of business with them. It matches up with their high-quality of work portfolio, and we have pushed them similarly. On the difference of that cap rate, it depends a lot of cap -- and certainly, lower cap rates are attributed to Whole Foods centers, but a lot of it has to do with the underlying growth of the income stream. And for those reasons I mentioned, those centers typically have better growth profiles because that -- the terms of their lease and the terms of these side shop leases. So it's at 25 basis points, it's at 50. It really, really depends. It's not fair to give a broad brush to answering that one, but we're big fans and we're doing lots of business with them.

Linda Tsai - *Barclays Bank PLC, Research Division - VP & Research Analyst of Retail REITs*

Thanks. And then the 2 new Whole Foods under redevelopment, are these boxes any different in configuration or layout versus existing boxes? I guess I'm asking if Amazon ownership has altered the format or size of the store.

Martin E. Stein - *Regency Centers Corporation - Chairman of the Board & CEO*

We have not seen, not only Whole Foods, but almost all the groceries we are working with, have not really changed their format size. It's been pretty consistent. I guess what is different is you're seeing a continued amount of innovation, experimentation, often an increase in R&D and they're seeing all grocers not just Whole Foods really focused on service and value and in-store experience. But that hasn't translated to a change in format or square footage. And they're still an expansion in bricks and mortar stores to support their store base. So we haven't seen change. Point 50 is a slightly smaller store than some of the mainline Whole Foods. Whole Foods operates in different formats, [if] anyone [has a] flagship or typical store. So that one might look a little bit smaller, but it's not a meaningfully change in strategy or anything like that. That's a terrific location in Fairfax on the side that we've owned for more than 10 years, beside that we're kicking up that development.

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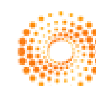

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Operator

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

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

We appreciate your time on the call and interest in the company. And hope you have a very nice Valentine's Day.

Operator

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

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