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REG.OQ - Q4 2022 Regency Centers Corp Earnings Call

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OVERVIEW:

Co. expects 2023 NAREIT FFO per share at midpoint to be $4.07.

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PRESENTATION

Operator

Greetings, and welcome to the Regency Centers Corporation Fourth Quarter 2022 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, Capital Markets. Thank you, Christy, you may begin.

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

Good morning, and welcome to Regency Centers' Fourth Quarter 2022 Earnings Conference Call. Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Alan Roth, Executive Vice President, National Property Operations and East Region President; Nick Wibbenmeyer, Executive Vice President, West Region President; 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 subject to various risks and uncertainties. It's possible that actual results may differ materially from those suggested by the forward-looking

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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 in 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. 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, and good morning, everyone. Thank you for joining us. 2022 is a really good year for Regency, and we ended it on a high note with solid fourth quarter results on all fronts. Our strong performance is a testament to the quality of our shopping centers, the health and resiliency of our tenants and the hard work of our team.

We enter 2023 with great momentum in our leasing pipelines fueled by strong tenant demand as we continue to have success growing rents across our portfolio. This persistent strength in the operating environment also continues to support the economics of our development and redevelopment projects. We look forward to further growing that pipeline over the next several years.

At the same time, it is important to acknowledge that the challenging macroeconomic backdrop is bringing with it more tenant bankruptcies and early store closures, which have been relatively light for the last couple of years. But importantly, our exposure to at-risk tenants is limited. This is not by accident. It is a product of many years of intentionally cultivating our portfolio of neighborhood centers and strong suburban trade areas. And where we do have exposure, we see upside opportunities in getting spaces back and taking advantage of the strong leasing environment.

Additionally, with inflation moderating, along with some stabilization in the capital markets, we believe we have more clarity on the impacts to our business from the economic environment than we did 3 months ago. These factors underscore our conviction in our 2023 outlook.

Shifting to the private transaction markets, we are starting to see increased activity. Transaction volumes remain thin, but with financing markets stabilizing and treasuries reversing course, competitive bidding situations are returning for high-quality grocery-anchored centers. We believe this validates our portfolio and our investment strategy as shopping centers with a focus on necessity, convenience and value are more resistant to impacts from economic cycles.

A couple of final thoughts before I turn it over to Alan. In addition to the stability and steadiness of grocery-anchored shopping centers, the open-air sector generally has really benefited from structural tailwinds coming out of the pandemic, lifting all boats with the rising tide. While we do expect those tailwinds to continue, we believe that 2023 can really shine a spotlight on Regency's attributes, allowing us to separate from the pack. These attributes include the quality and locations of our real estate, our tenant credit, our balance sheet strength and liquidity and the hard work and dedication of our amazing team.

In our business, you win on the meaningful margin by making solid operating and investment decisions every day that generate steady and sustainable growth. It's how we create value for our shareholders and this is reflected in Regency's long track record of outperformance in cash flow and dividend growth.

Alan?

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Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Thank you, Lisa, and good morning, everyone. The retail operating environment remains healthy, and we ended the year with another strong quarter. I'm really proud of our 2022 results. We had an exceptional year in leasing, helping to drive strong occupancy gains with our leased rate up 80 basis points and our commenced rate up 110 basis points over levels 1 year ago. Notably, our year-end 2022 same-property lease rate is back to our 2019 level of 95.1%. But make no mistake, we still have room to run and we aim to ultimately get back closer to peak levels of 96% or higher.

The primary driver was our record year for shop space leasing ending the year up 200 basis points with our shop lease rate now 70 basis points above 2019. I am especially proud of the shop occupancy recovery considering the many challenges we faced during the pandemic.

Our tenant retention rate remains above historical averages, bad debt as a percent of revenues is back to pre-COVID levels. And importantly, our GAAP and net effective rent spreads were in the mid-teens for the year due to our team's accomplishments of achieving initial cash rent spreads north of 7%, embedding contractual rent steps in the majority of our leases and maintaining our track record of judicious leasing capital spend. All of these positive trends and the progress we've made contributed to another strong year of same-property NOI growth of 6.3%, excluding COVID-related reserve collections and term fees.

At year-end, our signed but not occupied pipeline of 230 basis points represents more than $34 million of annual base rent, giving us positive momentum into 2023. Importantly, as leases commence, we continue to replenish this pipeline with newly executed leases. We have seen strong tenant demand continuing in the new year, and our LOI and lease negotiation pipelines remain full. Our most active categories include restaurants, health and wellness, veterinary, grocers and off-price. We are hearing from top national retailers that their appetite to expand outpaces the quality inventory available today which bodes well for Regency's high-quality portfolio.

As we all know from recent headlines, tenant bankruptcies and early store closures will be more impactful as we think about move-outs in 2023. Among retailers that have recently filed for bankruptcy, Party City comprises only 20 basis points of ABR over 6 stores, and we have only one Regal Cinema, which is less than 10 basis points of ABR. In the context of Bed Bath & Beyond's recently announced store closures, at year-end, we had 11 stores comprising 60 basis points of ABR. We had one of those expire naturally in January, and of the closures announced last week, we had 5 locations on the list.

Within our 2023 guidance range, we've embedded assumptions for credit loss associated with these bankruptcy filings and store closure announcements which Mike will discuss in more detail. But all of that said, we believe our overall exposure to at-risk tenants is relatively limited. Our current tenant base is healthier than ever as a result of being intentional in the centers that we own and thoughtful in our merchandising process.

And whatever the outcome of the at-risk tenants, we feel really good about the quality of our real estate. Tenant bankruptcies are a normal part of our business. And to the extent we get stores back from underperforming retailers, we have opportunities to mark-to-market rents and upgrade the merchandising mix at our centers. To that end, our teams are already negotiating with replacement tenants at higher rents for all of the known closures.

In summary, our strong Q4 results and the trends we are experiencing today provide positive momentum into 2023.

Nick?

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Thank you, Alan. Good morning, everyone. Last year, we successfully executed on our development and redevelopment strategy. Even with pressures from rising construction costs, we continue to achieve solid returns on our investments that will provide earnings accretion in years to come. To that end, we completed more than $120 million of projects with over $100 million of those completions in the fourth quarter. These include East San Marco, our Publix-anchored ground-up development here in Jacksonville. The property is 100% leased and outperformed original expectations on all metrics, including timing, cost and rents.

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Carytown Exchange in Richmond, Virginia is another Publix-anchored ground-up development. We split this project into 2 phases during the pandemic and recently completed construction on the second phase. We've had great leasing success at Carytown with tenants such as Torchy's Tacos, Jeni's Ice Cream, Burtons Grill and Starbucks.

Preston Oaks is the redevelopment of an H-E-B-anchored center in Dallas. We were able to significantly upgrade the center in the merchandising mix by adding vibrant new shop tenants, including Mendocino Farms, Heyday and Everbody, and the property is now 100% leased.

Out at Serramonte Center, we completed the first 2 phases of our redevelopment project during the fourth quarter. These phases included the interior mall renovation as well as the addition of Chick-fil-A and Starbucks outparcels. Future phases of this project, including the addition of 2 exterior buildings and the redevelopment of the former JCPenney space are expected to start in the second half of 2023.

In addition to our completions, we've also made great progress on our in-process development and redevelopments, which totaled $300 million at year-end. Highlights include our Whole Foods-anchored Town & Country redevelopment in Los Angeles. We discussed this project in detail a quarter ago, but construction has commenced in the fourth quarter and demolition of the former Kmart building is nearly complete. Additionally, at our Glenwood Green development in Old Bridge, New Jersey, construction is on schedule with Target's anticipated opening later this year, and we expect ShopRite to open in early 2024.

The team continues to do an excellent job of managing costs and keeping our projects on time and on budget. In total, we believe our accretive development and redevelopment program remains on track to deliver $15 million of incremental NOI in 2023 and 2024. Beyond our in-process projects, I'm really encouraged by the progress we're making growing our shadow pipelines. We're focused on building our pipelines through sourcing new ground-up development projects, new redevelopment projects through value-add acquisitions, as well as continuing to unlock redevelopment opportunities in our existing portfolio. We also continue to engage meaningfully with developers that are facing financing challenges, which could create additional joint venture opportunities.

In totality, we have the key ingredients necessary to grow our program, including robust tenant demand, long-standing retailer relationships, experienced development teams in top markets around the country. Importantly, we have the ability to self-fund this growth with free cash flow. We believe the combination of these capabilities are unequaled, and we look forward to sharing additional details as we advance these opportunities.

Mike?

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

Thank you, Nick, and good morning, everyone. I'll take you through some highlights from our Q4 and full year results, then walk through our 2023 guidance and assumptions before ending with some color on our balance sheet position.

Our strong performance last year was underpinned by growth in NOI and more specifically from base rent growth. Excluding the collection of 2020 and 2021 reserves, which I'll refer to today as COVID collections, we delivered same-property NOI growth of 5.8% in the fourth quarter and 6.3% for the full year. Again, most importantly, we saw a 3.6% contribution from base rent growth in 2022, accelerating to 4.8% in the fourth quarter. This growth in base rent over the last year has been driven by contractual rent steps, mark-to-market on re-leasing, increases in occupancy and commencement of rent from redevelopment projects.

As Alan mentioned, our leased occupancy rate is now back to pre-pandemic levels, but our eyes are set even higher. COVID collections were about $2 million in the fourth quarter and totaled $20 million for the year. That's down from $46 million in 2021. During the fourth quarter, we converted another 2% of our tenants back to an accrual basis of accounting from cash, and as a result, recognized nearly $5 million of noncash income from the reversal of straight-line rent reserves. We ended the year with 7% of our tenants remaining on a cash basis of accounting.

For uncollectible lease income, in 2022, we were close to our historical average of 50 basis points on current year billings by nearly all metrics but for some limited exposure to higher profile potential bankruptcies, our in-place tenancy is about as strong as it's ever been.

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Looking ahead to 2023 and after excluding COVID collections, we are guiding to core operating earnings per share growth of close to 4% year-over-year at the midpoint.

We'd like to point you to Slides 5 through 8 in our earnings presentation, which I'm certain you'll find extraordinarily helpful as you work through our outlook. We expect same property NOI growth, excluding COVID collections of 2% to 3%, which is the largest positive driver of earnings into 2023. The primary contributor continues to be base rent growth, driven by embedded rent steps, rent growth from new leasing and shop space commencement as well as the delivery of completed redevelopment projects.

Importantly, our same-property NOI guidance range also assumes credit loss impact of roughly 75 to 100 basis points from anticipated tenant bankruptcies and early store closures, including from those tenants that Alan discussed. This credit loss impact includes an assumption that current year uncollectible lease income will be modestly above our pre-pandemic average of 50 basis points as well as the potential for occupancy to end the year flat to lower -- should bankruptcy-driven move-outs occur. Again, this range excludes any impact from COVID collections, which I'll discuss in a minute.

As you think about reconciling NAREIT FFO of $4.10 last year to a guided midpoint of $4.07 in 2023. Remember that this metric continues to be significantly impacted by COVID era accounting adjustments, including the collection of rents previously reserved as well as the impact on noncash revenues from converting tenants from cash to accrual. Our operating fundamentals continue to strengthen, as they have in 2022 and as they are expected to continue this year. And these pandemic-related items can mask our true growth in cash earnings.

It's important to take this a step further this morning as these 2 items meaningfully impact year-over-year comparability. First, we are anticipating lower COVID collections of $3 million in 2023 compared to $20 million last year. And second, we are also anticipating lower noncash revenues of $36 million at the midpoint in 2023 compared to $47 million in 2022.

Please note that we increased our full year noncash revenue guidance from $30 million a quarter ago to account for new information, including an assumption that we will continue converting tenants to accrual accounting in 2023, as well as the likelihood that we will recognize accelerated below-market rent amortization triggered by the potential for bankruptcy-related store closures.

This is why we focus on core operating earnings, which strips out the noncash adjustments and also why we provide same-property NOI excluding COVID collections. With this added transparency, you can better see the underlying positive growth. Again, I encourage you to use the materials in our earnings presentation, as I'm certain you'll find it very helpful in evaluating these impacts.

The good news is that we are fast approaching the point where these COVID-related impacts will no longer create meaningful noise in our reported results.

To finish and to pivot from guidance, we feel great about how we are positioned from a balance sheet perspective with one of the strongest in the REIT sector at a time when it matters most. Our leverage is at the lower end of our targeted range of 5x to 5.5x debt-to-EBITDA. And we expect to generate free cash flow north of $140 million this year, self-funding our development and redevelopment commitments.

While the financing markets have moved in our favor over the last 3 months, we have no need to access the capital markets this year. Our revolving credit line was undrawn at year-end, and we have no unsecured debt maturities until mid-2024. Our liquidity position and maturity profile provide us the ability to remain patient and act when we need and walk to.

With that, we look forward to taking your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Michael Goldsmith with UBS.

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

You have this nice chart in your presentation where you outlined the factors that drive your long-term organic same-property NOI growth algorithm of 2.5% to 3% to your 2023 guidance of same-property NOI growth without termination fees or collections of reserves 2% to 3% is generally consistent with that. So maybe you can reconcile your long-term algorithm with what you're expecting this year. Where are the moving pieces? And just does that mean that 2023 is setting up as a Regency average year?

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

Good question, Michael. Thank you for that. Let me color that up, and I think you'll find that the algorithm still is intact. We are anticipating north of 3% growth this year and the also important base rent line item. And that's largely being driven by the tremendous activity that the leasing team delivered, and we highlighted on the call, 200 basis points of percent lease coming out of the small shop arena total, 110 basis points of commenced occupancy increases really driving good solid base rent growth.

Rent steps are playing a contribution there. Rent spreads from 2022 into 2023 redevelopment contribution. So all of those elements as you highlighted in our algorithm are there. That being said, there are some items that are dragging us down in 2023, one of which is our credit loss reserve. So a touch higher on a sequential basis, 2023 over 2022. I spoke to that in the prepared remarks, we are accounting for and providing for the potential for bankruptcies, which would be in excess of what we experienced last year. And then there is a slight drag coming from the net recoveries line item as well. You may have noticed that, that spiked in the fourth quarter. It's been a little bit elevated for the year, and some of that won't recur going into next year.

So on balance, I feel like the algorithm is still in place. Regency has set up extraordinarily well to deliver upon that growth profile. And we still have room to run from a leasing perspective and seeing that north of 3% base rent growth in '23 is a real positive identifier.

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

And my follow-up is on the SNO pipeline. Are you able to quantify how much is in there? And is that going to be realized by the end of 2023? Or is that a 2024 type of event?

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

Let me start and if Alan wants to provide any color, he'll jump in. It's roughly $35 million of ABR. You can call that 4% of our in-place rents. So that's -- I'm speaking to the 230 basis points of SNO. From a timing perspective, Michael, about 75%, 80% of that should be online by the third quarter of this year. And nearly all of it, in fact, by year-end, I think we're in the 90% area for year-end.

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

Got it. Good luck in '23.

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Operator

Our next question is from Ki Bin Kim with Truist.

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

So when you look at the inventory space that is left to lease across your portfolio, how would you describe the quality or leasability compared to what is currently occupied? Meaning there's always typically space in every center that's just always harder to lease. So just trying to -- I'm just trying to calibrate our expectations going forward.

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Ki Bin, it's Alan. I would look to our pipeline to answer that question and tell you that it's still full with a tremendous amount of activity that's following on the heels of a really strong 2022 year. So -- by and large, as we said, at 95.1% leased, we're setting our eyes higher, and we believe we can and will get back to 96-plus percent and the quality space that remains will certainly allow us to do that coupled with the great merchandising activity that remains in our pipeline.

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

And as you've reached 95% and on your way to 96%, like you mentioned, what do you think that means for lease spreads going forward? I know it's not always linear, meaning the more you're occupied, the higher spreads you get, but just trying to understand that dynamic a little better.

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes. I think we're shooting for high single digits is kind of how we look at that, Ki Bin. Feel again, really confident in doing that. But as you know, there's a lot of levers that also go into that cash rent spread and that includes embedded rent steps as well as our approach to how we spend our capital. And so collectively, again, I think we feel confident with the trajectory and the path that we're going down.

Operator

Our next question is from Greg McGinniss with Scotiabank.

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

Good morning. I realize it hasn't been that long since the Bed Bath store closure announcement, but I'm hoping you might have a few points of clarification. One is on -- you discussed higher rents, just curious how much higher? And then how many direct backfills are you looking at versus demising and what type of downtime should we expect on those?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes, Greg. No fun to be talking about bankruptcies again. But we have 10 stores that do remain that represent 50 basis points of ABR. We have 5 stores that were on the closure list. And again, we feel really good not only about those 5 stores, but the totality of whatever may come of the Bed Bath portfolio.

From a mark-to-market perspective, we think we're in the 15% to 20% range. And I think when you think about bankruptcies that have happened in the past such as Sports Authority, Toys "R" Us, Stein Mart, those were 40,000 to 45,000 square foot stores, and the Bed Bath stores are generally

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in the 30,000 square foot range. And so that really provides a much wider pool of interested users that, for the most part, will not require downsizes or splits, which again, I think will play a part in your capital question.

We are negotiating deals for all of our known closures. And in some instances, we're even running what I'll call an RFP in the interest of appropriately managing demand and relationships. But time will tell. They obviously just recently announced that equity raise. So we're staying close to it, and we're staying active and aggressive on all of our spaces.

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

Okay. And one follow-up on you mentioned the developers facing financing challenges and those who might end up doing deals with. I'm just curious kind of how big of an investment are you looking at on some of those assets? And how close are you to getting any of those deals done?

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Great question. This is Nick. As you can imagine, it's a wide range of investment. As you guys have seen the capital markets, especially for construction debt for local developers is effectively frozen. And so we are very well situated, as I mentioned in our prepared remarks, with our retailer relationships, combined with our impressive team around the country and clearly our available capital. And so -- we are, I would say, moving from coffee conversations that started 90 days ago into real dialogue and real negotiations and analysis of these opportunities. And so I do feel like it's the early stages, but the early stages are very important to growing a meaningful pipeline. And some of these projects that you could appreciate when you look at our historical development program of scale. So excited about it.

Operator

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

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

Maybe, I guess, I've got 2 for you. Number one, maybe if we can get a little bit more detail on the $0.21 nonrevenue mark-to-market. And presumably, some of that is related to some of your troubled retailers. If you can give us a little bit more color on that and also in particular, what sort of mark-to-market opportunities would you have if you get some of the space back, and I'm particularly thinking about properties such as Buckhead Station, South Beach, [University Commons], some of your properties that have some of this Bed Bath exposure.

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

Sure, Floris. I think you're asking about the accelerated below-market rent associated with the potential to get back anchor spaces. So we do -- we have incorporated a touch of that income into our expectations. It is a fluid situation, as you know. And those -- what we have incorporated into our guidance is, call it, roughly $3 million or so of anticipated accelerated amortization. Those would be tied to what we believe to be the potential for the Bed Bath & Beyond scenario to play itself out in which we may get back those spaces.

To Alan's point, I mean it's really a direct reflection of Alan's point that it's about a 15% mark-to-market opportunity on those units, which that below-market rent would indicate exists. And again, those original amounts were put up at the time of acquisition of the shopping centers and time will tell on the true economics where we end up.

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

Great. And then maybe a follow-up, a little bit more. Obviously, your not all spaces created equally, your small shop rents are double your anchor rents typically. I note that your small shop occupancy, leased occupancy went up 60 basis points. Can you talk about your physical occupancy a little bit? And also maybe talk about where you see -- I know you've mentioned that total occupancy in the portfolio gets to 96%. Where can small shop occupancy go? Where was the peak in the past?

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

Before Alan answers this question, I feel like I have to jump in and say I appreciate that you recognize that all space is not equal. And I would say it's not just from small shop and anchor all retail is not created equally, and high-quality space actually is very different and command, but much different rents than those of lesser quality. So I appreciate you making that recognition, Floris. I'll let Alan answer your question more specifically.

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes. Really well said, Lisa. I think the only thing left to answer there, Floris, is where is the peak occupancy, and that's at 93% historically. And so we are at 92% on a shop occupancy perspective right now and again, as I said, we feel really good about kind of where our pipeline is and what remains in our ability to not only get there, but hopefully, we can exceed that.

Operator

Our next question is from Lizzy Doykan with Bank of America.

Lizzy Doykan - *Bank of America - Equity Research Associate*

I was wondering if you could walk through the assumptions behind base rent growth seeing that as the primary driver of 23% same-store NOI guidance. What exactly are you assuming for contractual rent bumps, in-place rents and then the commencement of rent from redevelopment? Or if you could just talk about your strategy on how you're balancing those 3?

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

Sure. I'll walk through the components and Lisa or Alan may provide some color from a strategy perspective. North of 3% base rent growth, you got it right, and we're excited about that opportunity in 2023. It's really coming from a combination of several things, as I talked about earlier with Michael's question with respect to our NOI growth algorithm. So rent steps, that's the bread and butter of our growth profile. It's been a -- the positive contribution has been in the 140 basis point range for a long time, and we're trying with every lease to move that needle as we continue to embed higher and higher contractual rent increases.

Rent spreads continue to be a positive contribution. You saw a 7-plus percent outcome in 2022. That will translate to growth in '23. That will be in that just call it, 75 basis point area. It depends on timing from that perspective on rent commencement from a delivery perspective.

What we're really excited about is now that we're starting to contribute from a redevelopment perspective. We've talked about this $15 million of NOI that's coming online from our redevelopment and development pipeline. A lot of that is from the redevelopment pipeline. It will come through our same-property NOI growth line item. We strategically try to deliver 25 to 75 basis points of impact to NOI growth. I will say with this pipeline that we are delivering at this point in time, we should be at the upper end of that range.

And then I made some comments in the remarks around our outlook for occupancy. We've made tremendous strides in moving that commenced rate in 2022. We will continue to deliver our SNO pipeline, hopefully, maybe even a little sooner in 2023. But now we're getting into the impact of

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the credit loss and the BK reserve. So that could be a bit of a dampening impact depending on how the bankruptcies play out over the course of '23. Those would be the contributing factors to base rent growth.

Lizzy Doykan - *Bank of America - Equity Research Associate*

Great. Another follow-up, I was wondering what is included in your assumptions for the $65 million of dispositions baked within guidance at a 7% cap rate? Is this just based on what you're seeing in the market? Or is that kind of an estimated -- just an allocation for now?

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

It's specifically identified projects. They are actually a collection of assets coming from one of our larger JV portfolio. So that's -- we've long been a -- we've long believed in kind of culling the bottom of our portfolio, whether it's wholly owned assets or JV properties. It's one of the reasons why our exposure to risk is so minimal. It's just Regency's active commitment to culling on a limited basis, lower-quality, nonstrategic, lower-growth assets. So this -- the $65 million is just that specifically identified projects.

Note the timing expectations there are an assumption that could move around. But it's just a placeholder for now on those identified projects.

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

And I'll just add. I appreciate Mike's comments about that. We really do believe that a year like 2023, may really shine a spotlight on that in terms of making sure that we are proactively managing the quality of our portfolio. And we believe that, that really does fortify sustainable NOI growth over the long term. So while that disposition guidance did come with a 7% cap rate that as Mike said, that's a placeholder. We looked at last year's transactions and just added a little bit of perhaps market movement to that. But more to come, and we'll have more clarity as we move through the year with regards to that market. But again, it's an important part of our strategy and one that we remain committed to, and I believe has enabled us to deliver same property NOI growth at the higher end of the industry.

Operator

Our next question is from Craig Mailman with Citi.

Craig Allen Mailman - *Citigroup Inc., Research Division - Research Analyst*

Just want to follow up on the transition of tenants back to accrual accounting from cash. I'm just kind of curious, as we sit here today. I mean, could you just give a little bit of color on what types of tenants you guys move back in the fourth quarter? And of the 7%, maybe what's the probability of moving more and where you think that 7% to move to by the end of the year or what's a more normalized level?

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

Sure. Craig. So we're at 7% at year-end, as I mentioned in the remarks, and that's down significantly. I think the high watermark at the peak of -- in 2020 was 27% of our ABR. The answer to your question of who is that and what is that it's largely just a reflection of who it was originally. And that is small shop tenants, more local credit, personal services. It actually has a bit of a West Coast bias to it now because those are the tenants who are -- who kind of came out of the impacts -- from COVID later. And there meeting very specific requirements that we've set up internally to qualify for conversion. So current on all rent, no outstanding deferred billings, and have been current for a period of time around 9 months or so is what we anticipate. So they're meeting pretty strict hurdles.

And I mentioned on the call, we're extraordinarily satisfied with the quality and health of our tenancy at this point in time.

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To your point on 2023, we have included about $2.5 million of conversion forecast into our expectations. That is worth about 2% of ABR. So another 2% brings us down to the 5% area. That is probably in the ZIP code of where we -- I think we settle out from a cash basis tenancy perspective. A touch higher than if you were to look over our shoulders years ago, and it's a touch higher than that. But I think 5% given the new standard with respect to the accounting for that impact is about in the ZIP code of where we'll be.

Craig Allen Mailman - *Citigroup Inc., Research Division - Research Analyst*

That's helpful. And then separately, maybe Lisa going back to your commentary of better visibility today than 3 months ago. Could you just give a little bit of color on what aspects of the business you feel like you have more visibility on today, whether it's leasing, you talk about the transaction market a bit, tenant credit? And also, I'm just kind of curious, if you were forced to give guidance 3 months ago versus today, what -- directionally kind of where do we sit today versus 3 months ago?

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

Answering it first, it's all of the above. It's actually everything that you pointed to. It's another 3 months of building the leasing pipeline. It's another 3 months of seeing how our tenants are performing with sales continuing to rise and at our restaurants and our grocery stores. It's 3 months of prior -- 3 months ago, we were seeing literally no activity in the transaction markets, and those are starting to thaw, and we're seeing high-quality properties come to the market. And as I mentioned in my prepared remarks, competitive bidding situations for the types of properties that we want to own. So it's really all of the above that is just giving us that confidence.

I'm looking at Christy and Mike, to make sure that I can answer this question. If I was forced to give guidance 3 months ago, I would say it would be similar to what we just did. I just have a lot more confidence and conviction today than I did 3 months ago because of all the reasons that I just stated.

Operator

Our next question is from Juan Sanabria with BMO Capital Markets.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - MD & Senior U.S. Real Estate Analyst*

Maybe a question for Mike. I was just hoping you could maybe delve a little bit into the expense recoveries that you noted were elevated in the fourth quarter and for the year and how that changes or morphed a bit into '23?

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

Sure. Yes, and you can see the impact in the supplemental, and I appreciate you asking the question and pointing that out. It's about a 160 basis point positive impact in the quarter alone. It is diluted down for the full year to 30 bps. So there's some seasonality actually in that line item in the fourth quarter. We do -- the billings from a recovery perspective in that quarter tend to be on the higher end of the recovery ratio side. You can think of expenses like SNO removal, like real estate taxes that just have a bit of a higher collection rate.

Another component, it's really a lot of little things, Juan, and I'm going to go through some of them. But one of the larger drivers is also a bit unique. Going back to the Equity One merger and Prop 13 impacts, it took remarkably long for the municipality to get through the supplemental tax billings. And those billings ultimately were expensed as incurred, but then collected later and now you're bringing in some cash basis tenancy impacts here as well. So thankfully, and gratefully, we've collected all of it in 2022. Some of that being accelerated into the fourth quarter so that's causing a bit of the bump as well.

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So it's really a combination of those 2 things driving that outsized impact in the fourth quarter. I feel really good about our collection rate. We're in that 85-plus percent area from a recovery rate perspective. I would anticipate that holding steady into 2023 as you think about your model.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - MD & Senior U.S. Real Estate Analyst*

Great. And then just maybe a sensitive question, but on Amazon, what do you guys think from them across Whole Foods and their other brick-and-mortar concepts with regards to demand for space, appetite for new stores the lack thereof and how you're using your space? And is there any signs of weakness there with regards to foot traffic versus other grocery concepts?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Juan, I appreciate the question. So look, they're still performing really strong in our portfolio. We have a great relationship, given the abundance of Whole Foods stores that we have in the portfolio. They're expanding, as maybe Nick can touch on a bit in terms of his discussions on new stores and how they're looking at that with our conversations. But foot traffic is certainly coming back with them, and they remain a great retailer that we really love merchandising around in terms of the totality of our assets.

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Yes. Juan, I would just add, as Alan alluded to, there's just -- there's a lot of demand from a lot of our grocers right now to continue to expand around the country. And so that's a lot of what's driving our excitement about future development opportunities is key grocers such as Whole Foods do want to expand. They're performing really well, and we're excited about continuing to grow our portfolio with them and others.

Operator

Our next question is from Anthony Powell with Barclays.

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

I guess a question on the bad debt assumptions for the year. How much of the 75 to 100 basis points is [attributed] to known situations like Bed Bath & Beyond? And how much more cushion is there in that number?

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

Sure. Anthony, it's Mike. Let's talk through maybe scenarios is how I like to think about it from a midpoint, low end and high end. And also, when we think about credit loss reserve, I think it's important to remind everyone, that's a combination of uncollectible lease income or bad debt expense, together with the impact on base rent that could come from a rejection of a lease in the bankruptcy. So it's a combination of base rent impacts as well as the expense line item.

From a scenario standpoint, let's start with the midpoint and go from there. We are anticipating what I would call more of a classic reorganization scenario at the midpoint of our range. So in the middle of that 75 to 100 basis points. And by the way, that 75 to 100 is really encapsulating the top to bottom. So a classic reorganization, Alan gave us some intel and some clarity on what stores have been identified for closure at least. That does not mean that they've been identified for rejection. Nothing's happened at this point. But that scenario would be in the midpoint.

You can also be certain to know that a full liquidation scenario of this name would be captured by the low end of our guidance. So we are very comfortable that even with a relatively -- or soon to follow filing if that were to happen and a relatively quickly paced liquidation process, we are pretty comfortable here that the low end of our range would capture that scenario.

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And then the -- and then I'd say, I'd actually extend that midpoint scenario into the upper end. So what may be an unlikely scenario that a lot of good happens and Bed Bath is if there are no closures at all and that they continue as a going concern, frankly, that would be a little bit of an upside to our guided range.

Now also recall it's credit loss, so there's bad debt expense. I mentioned in the call, we are a little bit of an increase with respect to 2023 outlook versus 2022 actual performance. So just a little bit more cushion in the plan from a classic bad debt expense perspective. And we'll see how the year progresses. I feel really good, again, about our tenancy, feeling really good about the quality of our merchandising but we all are aware of what potential headwinds there may be out there.

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

And maybe one more on acquisitions. I think, Lisa, you mentioned that you're seeing more bidding processes play out. How do you view your potential to be acquired this year of assets given what you see in cap rates, transaction volume, your own cost of capital?

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

I'll just point to our balance sheet and the fact that we're generating $145 million of free cash flow. We do have development spend. But even we are able to access the debt markets and to the extent that we leverage that cash flow, even staying leverage neutral within our strategic net debt-to-EBITDA targets, that gives us investment potential north of $200 million. So we are positioned to be active. It has to be the right opportunity. And you all probably get tired of hearing me say this, right? If it checks the 3 boxes, we will be active. If it's accretive to earnings, accretive to our future growth rate and accretive to our quality, we're poised to act.

Operator

Our next question is from Mike Mueller with JPMorgan.

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

In your slides, you talked about 5 redevelopments that could start over the next, I think, it's like 12 or 12 to 18 months. Just wondering, how should returns on those look compared to what's already in process today?

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Thank you for the question, Mike. The simple answer is very similar to what we've seen historically. And so our target returns on redevelopments have not changed materially. And so when you look at our ones that we've recently completed and are ones that are in process, we're targeting similar returns for our future redevelopments.

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

Got it. Okay. And then, Mike, I know there are a lot of moving parts with the ins and outs of occupancy. But what does guidance assume for the year and commenced occupancy level?

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

I like to think about it in 2 layers, Mike. And it all kind of -- it's -- I'll summarize as to what I said in the call that it's flat to slightly negative if the bankruptcies were to appear. But when I think about our lease -- our base leasing plan. And again -- and if I think about the SNO pipeline and the fact that we're going to deliver that pipeline, that's a rising level of percent commenced, and that is what's driving that billable base rent line item.

However, when you layer in the possibility of bankruptcies, that could lead us in my midpoint scenario to a flat to maybe slightly negative outlook for percent leased. So there's a lot of good news in that occupancy outlook but there's also the potential for some vacancy to come back our way. Not afraid of it to Alan's comments really excited and actively working on re-leasing that space today. But that would be the best outlook on occupancy.

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

So the midpoint, we should think of it as roughly flattish?

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

Including the scenario I outlined with respect to a reorganization scenario of the tenant in question.

Operator

Our next question is from Tayo Okusanya with Credit Suisse.

Omotayo Tejamude Okusanya - *Crédit Suisse AG, Research Division - Analyst*

Lisa, thanks for your comments around how you're thinking about acquisitions. You guys also made some comments about the redevelopment pipeline. I'm just curious, just kind of given freshness cost of capital today. How do you guys kind of think about prioritizing or accelerating one versus the other acquisitions, development, redevelopment and as well as share repurchases?

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

That prioritization has not changed. The best use of our capital has been and will continue to be the developments and redevelopments. We get the best returns. We have a really successful track record of delivering our underwriting and the underwritten returns that we disclosed to you, which are clearly a premium over competitive bidding acquisition market. At the same time, we do have the capital to invest, as I just stated. And if we are able to check those boxes of accretive to earnings, accretive to quality and accretive to our future growth rate, then we will invest in high-quality shopping centers as well.

We've been successful with that. We had quite an active -- really the past 2 years, we've been successful in closing on shopping centers that check all 3 of those boxes, some off-market and 1 or 2 that were actually competitive bidding as well.

And share repurchases, we've had the opportunity to take advantage of what we believe to be a significant dislocation in the market a few times in the history of Regency, and we will continue to use that arrow in our quiver when the opportunity presents itself.

Operator

Our next question is from Paulina Rojas with Green Street.

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Paulina A. Rojas-Schmidt - *Green Street Advisors, LLC, Research Division - Analyst of Retail*

Good morning, and -- so transactions are spars and having a retool on pricing, it's more difficult than it was before, but there are still hundreds of millions of dollars exchanging hands. So what in your assessment of how pricing for your product has changed since, let's say, the peak last year?

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

I'm going to -- Paulina, I'm going to -- I'll let Nick handle this as he's -- again, we haven't been active, as you've seen from the results as I said, the market is thawing, transaction activity is still pretty thin. But Nick's team is the one along with Barry Argalas are really kind of farming those opportunities. So I'll let Nick address that.

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Appreciate it. Thank you for the question, Paulina. I don't have a lot to add. As Lisa said, there just aren't specific data points we can point to yet. However, we do expect here in the next 60 to 90 days as some of these transactions that have come to market and we are seeing real competition for them. There's solid demand for our type of asset, high-quality grocery-anchored assets around the country can continue to be in demand from investors. And so -- we do expect to have some specific data points here in the next, call it, 60 to 90 days as some of these deals close. But we're expecting those to be -- to highlight the quality of our assets.

Paulina A. Rojas-Schmidt - *Green Street Advisors, LLC, Research Division - Analyst of Retail*

And can you characterize point to a specific segment of investors that are back at the table that have regained confidence? Because we also hear a lot of institutional investors that are selling product and need to sell product today. So how can you characterize the demand at the margin that you are seeing coming back?

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Again, great question. And again, as these deals close, we'll be able to point to specifically who the buyers were, but what we're seeing and hearing as these -- as our team continues to underwrite and talk about specific transactions is it's really broad-based. And so it's institutional investors around the country. And so as much as we're seeing broad-based in the sellers, we're seeing broad-based in the buyers. And so I can't point to a single institution that's the buyer or the seller right now. It's broad-based in both respects.

Paulina A. Rojas-Schmidt - *Green Street Advisors, LLC, Research Division - Analyst of Retail*

And if I can, last one, I hope -- and hopefully short. Where do you think that the CMBS market is for grocery-anchored centers today?

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

Paulina, it's Mike. Hard for us to tell. We're not really a CMBS user. So I'm not as close to or familiar with that market day to day. I will -- for our product, grocery-anchored neighborhood shopping centers that are very resilient, have great quality rent rolls with underwritable tenant credit. I would imagine that, that market would be available to us. I don't know that I would appreciate the pricing of that product.

But it's -- as with most of the credit markets, especially today, it's limited. And borrowers have little less access to debt capital today, but borrowers like Regency with great reputations in the credit market with scale, with quality will have and create great relationships. We'll have more access than most.

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Operator

Our next question is from Linda Tsai with Jefferies.

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

Just one quick one. With treasuries reversing course and inflation is starting to abate a little bit, is this showing up in terms of more traffic or transactions at your centers?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Linda, we're basically flat to 2019. And so we feel really good about the traffic that's there right now. Again, necessity-based retail, and they're performing really well. Our restaurants are performing exceptionally well, as are others. So I think we're back to a pretty steady state right now from a traffic perspective.

Operator

Our next question is from Ronald Kamdem with Morgan Stanley.

Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Just 2 quick ones from me. Just going back to the 96% potential leasing targets. Just curious what we need to see for that to happen. Is that just the current run rate of leasing? Limited sort of move outs? Just trying to figure out the building blocks, the breadcrumbs to get to that 96% and how achievable that is?

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

Well, we know it's achievable as we look over our shoulder in our past, and we feel even better about the quality of the assets we own today than when the last time we achieved that level. So that's how we know it's achievable and where our targets are. You outlined the breadcrumbs. The third element I would give is time. We've talked on previous calls about our ability to lease space at pretty meaningful rates. And we delivered on that in 2022. We added 100 basis points of commenced occupancy. I mentioned the 200 bps of percent lease coming from the small shops.

So time, continued effort by the leasing team, bankruptcies of a material sense will put kind of holes in the bucket that we all then need to work our way through. And again, that will only be a matter of time, not if we can lease that space but really when. It's not -- Ron, we're not anticipating that achieving that level, and I'll just say, in 2023, there's going to be more time than 12 months ahead of us to achieve that. But we'll get there in due time.

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

And I would just add, and setting the bar high, as I expect that our team would deliver that, if not for those bankruptcies, as Alan talked about, our leasing pipeline is really strong. We have a lot of momentum. And my expectation, if we didn't have the hole in the bucket from those store closures and bankruptcies that we know are coming, we have visibility to it. We'd be able to increase occupancy in 2023.

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Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Great. And then if I could just sneak in a quick one because I haven't heard it. Just any updated thoughts on this, the Kroger, Albertsons, how you guys are thinking about the deal and as it relates to Regency?

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

Yes. I mean not much has changed. I know that there was a report this morning where they -- I think they publicly stated that they were looking to sell 250 to 300 stores but that's actually not any different. It's just more narrow than what they had said when they first announced the transaction. So we're just going to -- we are in a wait and see what happens. We've got great relationships with both of them. They're not allowed to give us any nonpublic material information, though, so we know what you know.

But what we do know is we feel really good about the quality of our real estate and our grocery stores that have Kroger and Albertsons, they're both leading grocers and we believe the combination of the 2 would be good. We think that, that would provide them more scale, more ability to invest in both their physical bricks-and-mortar as well as in technology. And if for some reason, it gets blocked, we still feel really good about our real estate, and we have 2 of the leading grocers anchoring our centers.

Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Appreciate the disclosures.

Operator

There are no further questions at this time. I'd like to turn the floor back over to Lisa Palmer for any closing comments.

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

Just want to thank you all for being with us this morning, and I also want to once again thank the Regency team for a really good 2022. And we look forward to further conversations and great results this year. Thank you all.

Operator

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

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