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PRESENTATION

Operator

Greetings, and welcome to the Regency Centers Corporation First Quarter 2023 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Christy McElroy, Senior Vice President of Capital Markets. Thank you, Christy. You may begin.

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

Good morning, and welcome to Regency Centers' First Quarter 2023 Earnings Conference Call. Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Alan Roth, EVP National Property Operations and East Region President; and Nick Wibbenmeyer, EVP and West Region President. 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 these forward-looking statements we may make. Factors and risks that could cause actual results to differ materially from these statements may be included in our presentation today and are described in more detail in our filings with the SEC, specifically in our most recent Form 10-K and 10-Q filings.

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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 applied to these presentation materials. Lisa?

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

Thank you, Christy. Good morning, everyone, and thank you for joining us today. We are pleased to report another solid quarter with positive results. Yes, we acknowledge there is uncertainty in the economic outlook, especially given the recent bank turmoil. So we do continue to look for signs of softening in our business. But to date, we haven't seen it. Operational trends remain positive, and this is consistent with our update a quarter ago. And in fact, with 3 more months in the book, we have even more conviction in our outlook for this year. Tenant demand for space in our centers remains strong, sustaining the momentum in our leasing pipelines and also in our ability to drive base rent growth.

This is the case across our entire operating portfolio as well as within our development and redevelopment program. We've seen continuing outperformance in tenant sales as well, which have resulted in higher percentage rents, especially in restaurant and grocery. We believe this reflects strength in those categories as well as an ability of consumers in our trade areas to absorb elevated inflationary impacts. As we discussed in our last call, we are seeing more activity related to tenant bankruptcies, most recently with a widely anticipated filing from Bed Bath & Beyond nearly 2 weeks ago.

But none of this activity has been a surprise to us as these retailers have been on our watch list for some time. And as Alan will discuss, our teams have been proactive and we're seeing strong demand from tenants to backfill the space. Regency's relatively limited exposure to these bankruptcies is not by accident or luck, it is the result of proactive asset and portfolio management over a long period of time as the quality of our assets and locations gives us the advantage and the ability to be selective in the merchandising of our centers.

We believe that our in-place tenant roster today is as strong as it's ever been. One change that we have seen since our update last quarter is in regard to the transaction markets. You may recall that I commented that we were starting to see increased activity and competitive bidding situations returning. But that was pretty short-lived as within weeks after that, the transaction market was again impacted by uncertainty and instability in the financing markets. I was hoping that today we'd have more concrete data points to share with you, but transaction volumes remain very thin.

That said, we remain on our front foot from an investment perspective. As Nick will discuss in a few minutes, the team is hard at work finding new opportunities to invest our free cash flow and grow our development and redevelopment pipelines. This has long been a core competency of Regency, as many of you on this call are aware. And I'm proud of our industry-leading team and a long track record of successful execution. In summary, we believe that given the positive structural trends supporting continued tenant demand in suburban trade areas, we and the shopping center sector as a whole, are in an enviable position with greater resistance to potential adverse economic and capital markets impacts.

And further, we also believe Regency benefits from competitive advantages, including the exceptional quality of our assets and our people, our liquidity, access to capital and balance sheet strength that uniquely positions us to be opportunistic while still delivering quality results. Alan?

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

Thank you, Lisa. And good morning, everyone. The positive leasing and retail environment we experienced last year has continued as evidenced by another quarter of strong operational trends. Leasing activity remains robust with new leasing volume 20% above our historical first quarter average. Activity was led by continued strength in shop leasing, where occupancy was up another 20 basis points in the quarter on top of a 200-basis point increase during 2022.

Cash rent spreads remain healthy. And importantly, our GAAP and net effective rent spreads were both, in the mid-teens in Q1 and on a trailing 12-month basis. The GAAP and net effective rent spread metrics are the most reflective of our ability to drive base rent growth while prudently

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managing our capital investment and maximizing our return. We believe these mid-teen spreads are reflective of the quality of our shopping centers and locations, which gives us leverage and lease negotiations and allows us to limit leasing capital spend.

To that end, I would encourage you to review our new net effective rent disclosure on Page 20 of our supplemental. Embedded rent escalators are a huge driver of our rent growth, and we continue to have success driving these steps. Nearly 90% of all leasing activity and 93% of shop leases in the first quarter had embedded rent steps, which is our highest percentage on record for shops. So not only are we pushing the rate of contractual increases higher, but we're getting them in more leases. These positive operating results and activity contributed to another solid quarter of base rent and same-property NOI growth. Most importantly, it provides further conviction in our forward growth trajectory.

Leasing activity remains strong and our signed but not occupied pipeline is flat quarter-over-quarter at 230 basis points, representing $32 million of annual incremental base rent. So the leases that we are commencing each quarter, we are replenishing the pipeline with new leases signed. Notably, our new disclosure on Page 20 also includes enhanced information on our signed but not occupied pipeline. Today, we also have nearly 1 million square feet of leases under LOI or lease negotiation, further reflective of the strength and demand that we continue to see.

This activity includes square footage associated with recent tenant bankruptcies for which we've seen strong interest. The most notable of these is the recent filing of Bed Bath & Beyond, of which we have 10 locations comprising only 50 basis points of ABR. Five of these locations were included on last week's rejection list, which we had expected. Our teams have been proactively engaged on all of our Bed Bath locations with potential backfill tenants in anticipation of the opportunity to recapture and remerchandise the stores.

Demand is coming from several categories, including grocers, off-price retailers, home decor, sporting goods and medical uses. This is resulting in multiple retailers [buying] for many of these spaces, and we anticipate average mark-to-market of approximately 20%. In addition to Bed Bath, we continue to actively manage all of our at-risk tenant exposure. We own great real estate in some of the best suburban trade areas around the country and leasing demand remains strong.

We are not afraid to get spaces back in an environment of limited new supply growth and a surplus of great retailers that are actively looking to expand. In summary, our team feels really good about the continued positive momentum we are seeing in the retail operating environment. Nick?

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

Thank you, Alan. Good morning, everyone. We continue to make great progress executing on our development and redevelopment strategy, ending the quarter with $300 million of in-process projects. Leasing activity remains strong, and our team has done an excellent job of keeping our projects on schedule within budget. As we have discussed on prior calls, Regency is uniquely positioned to grow our investment pipeline by utilizing our 3 development cornerstones, our capabilities, our capital and our contacts are an equal combination of development expertise, our access to capital, given our extensive free cash flow and fortress balance sheet in conjunction with our expansive and deep industry contacts and relationships across our 22 offices, give us an unparalleled advantage to source and execute on attractive opportunities throughout the country.

For instance, we are nearing the finish line on the purchase of a development project in the New York Metro area. This nearly $90 million investment will be anchored by a best-in-class specialty grocer and located in an extremely high barrier to entry market. Additionally, this week, we also closed on the first phase of a retail development and a thriving 10,000-acre master plan community in Metro Houston. Although the first phase is smaller in scale at approximately $10 million, we do anticipate being able to grow the project in future years. We look forward to sharing more details on both of these projects when we add them to our in-process pipeline. Beyond ground-up developments, our investment team continues to execute on opportunities to create value within our current portfolio.

Subsequent to quarter end, we started Phase III of our redevelopment at Serramonte Center in Daly City. This $37 million project includes the redevelopment of the former JCPenney and the addition of 2 small shop buildings adjacent to Macy's. We have executed a lease with best-in-class South Korean food market and grocery operator for the former JCPenney space. And we're excited to bring their new concept to the Bay Area. This phase of the project sits at the highly visible front door of the shopping center and will bring the center to 97% leased. In summary, we remain encouraged by the opportunities we are seeing to drive future value creation and reinvest our free cash flow and are focused on continuing to build our development and redevelopment pipelines to north of $200 million of annual starts. Mike?

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

Thanks, Nick, and good morning, everyone. I'll start with some highlights from our first quarter results, then walk through a couple of changes to our full year earnings guidance and assumptions. Excluding COVID period reserve collections, we delivered same-property NOI growth of 6.3% in the first quarter. The largest driver was base rent, contributing a strong 430 basis points in the quarter. Base rent growth is the most important indicator of our portfolio strength. And we continue to see positive impacts from embedded rent escalators, positive spreads on re-leasing space and higher occupancy year-over-year.

We also saw meaningful outperformance on percentage rents in the quarter, contributing 100 basis points to same property NOI growth despite tougher year-over-year comps, driven by continued strength in grocery and restaurant sales. Notably, percentage rents tend to be seasonal, with the majority of sales-based billings occurring in the first quarter of the year. The other meaningful driver to first quarter same-property NOI was a 130-basis point positive contribution from uncollectible lease income. We continue to isolate the collection of COVID period reserves from 2020 and 2021 to provide a better picture of normalized results.

But the realities of cash basis tenancy can create some variability in the bad debt line item from quarter-to-quarter. To that end and due to the better-than-expected collection rates on cash basis tenants, we experienced a positive contribution to uncollectible lease income this quarter as we collected on rents originally billed and reserved in 2022. The increasing collection rates and decline in receivable and reserve balances demonstrate the health and resiliency of our tenant base.

Turning to 2023 guidance. I'd like to point you to the helpful detail on Slides 5 through 7 in our investor presentation. We've increased both, our NAREIT FFO and core operating earnings guidance ranges, each by $0.04 per share, driven largely by the outperformance in percentage rents and uncollectible lease income in the first quarter. Collectively, these items also drove the 50-basis point upward revision in our same-property NOI growth guidance to a new range of 2.5% to 3.5%, excluding COVID period reserve collections.

I also want to spend a minute on our credit loss assumption, which we revised to a lower range of 60 to 90 basis points for the full year from 75 to 100 basis points previously. Notably, the midpoint of our new same-property NOI and earnings per share ranges now capture the potential for a full liquidation of Bed Bath & Beyond by mid-year. This scenario was previously contemplated in the low end of those ranges. However, this change was offset by first quarter outperformance and bad debt that I discussed earlier, which positively impacted our full year credit loss assumption.

On the capital side, in late March, we repurchased roughly 350,000 shares for $20 million at an average price just over $57 per share. This repurchase was executed to hedge the planned issuance of a like kind of Mountain OP units to the seller of the development project in New York that Nick mentioned earlier. I'll end as I typically do, highlighting the strength and afforded opportunity of Regency's balance sheet, the importance of which is never more evident than in times of capital markets' turmoil.

Leverage remains at the low end of our targeted range of 5x to 5.5x debt to EBITDA, we are generating significant free cash flow projected to be north of $140 million this year, funding our investments' pipeline. We have access to significant liquidity with our $1.25 billion line of credit. And there are no significant debt maturities for over a year. This position of strength allows us to be patient and opportunistic in this evolving environment. With that, we look forward to taking your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

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

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

My first question is on the sustainability of the leasing demand. What have you seen -- have you seen any change in the leasing volumes post Silicon Valley Bank and some of the disruption that was experienced in March? And just, has that sustained in April? And if you have seen anyone express any sort of resistance or slowdown in leasing, what are the reasons they're talking about? Just trying to get a sense of the long-term sustainability of this recent trend.

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

Yes, Michael, this is Alan. I appreciate the question. We are still seeing very strong demand across many categories in all of our regions. And as we mentioned, we've got over 1 million square feet of new activity in the pipeline. And when we look back and we think about the bumpy road of the kind of bank announcements that you had mentioned in March, our March new activity actually exceeded both, January and February. And then, of course, post closing of first quarter, we actually obviously have visibility to April activity as well.

April new activity has exceeded January, February and March independently. So I think collectively, we would tell you that we still feel really good. Again, head is not in the sand. But it's quality retailers. It's a deep pipeline. The activities are coming across the finish line, and we've got plenty that still remains in the queue as we look forward.

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

Got it. And my follow-up question is for Mike. It seems like half of the upside to the '23 guidance and the outperformance was driven by base rent, which we kind of talked about. But then the rest was kind of driven by percentage rent and maybe some upside or near-term upside in the lease termination fees. So I guess the question here is just the sustainability of that. Or is that sort of a onetime item that shouldn't recur through the rest of the year?

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

Michael, it's a combination of both. I mean we won't -- clearly, we had some onetime impacts to the first quarter that beat our estimates internally, and those are flowing through to full year resort -- results. But there is a little bit of tailwind remaining in our guide. We've become slightly more conservative, I would say, on the -- with the added visibility to the ongoing Bed Bath & Beyond filing.

And a lot of that's been covered up by those first quarter impacts as well as our outlook for the balance of the year. So we do see ourselves floating into -- floating back into our guidance range from the first quarter. There's some headwind in the top end from base rent as we lose the Bed Bath locations. Our outlook on an ongoing basis with uncollectible lease income remains I would call it historically average, maybe to a little bit slightly better from what we had coming into the year. And the best story that I see is tagging on to Alan's point on our leasing pipeline, the shop demand continues to be there and our -- and we're commencing rents.

The $32 million of ABR that's in the pipeline, we will deliver that this year. 80% of that, in fact, will come in this year. And that's just a great driving factor of the -- of our renewed outlook on same property growth.

Operator

Our next question is from Greg McGinniss with Scotiabank.

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

Just to kind of touch on some of those headwinds, tailwinds thinking about where we might end up at the end of the year. I think on the last call, you talked about kind of flattish occupancy through year-end potentially. But given this kind of healthy Q1 leasing maybe a little bit of an offset from the Bed Bath & Beyond bankruptcy, how are you thinking about year-end occupancy expectations at this time?

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

Greg, still flattish. The bank -- essentially, the bankruptcy is turning out how we envisioned it would a quarter ago. So our outlook remains the same that depending on how the auction proceedings end up, we're going to be flat to slightly down potentially by year-end. But again, from a revenue perspective, remember that we have all -- we have this tailwind of delivering that occupancy that we have already contracted that -- and that shop space demand that will come through, all of which is -- the word I would use is overwhelming what we may lose through the bankruptcy proceedings.

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

Great. And as a follow-up, I just wanted to touch on the tenant watch list. I think regional banks have obviously been in the news a lot based on our look. You don't have any exposure to the ones that have been called out yet. It's more like 50 basis points maybe-ish around there, I think. We'd love to have you confirm. On other regional bank exposure, curious on potential backfills for those kinds of spaces, especially on the outparcels and what level of demand you might be seeing there.

And then looking at maybe like Kohl's, Rite Aid, Michaels, we see some more risk than I think limited to 1.9% of GLA. Are you in discussions on some of those spaces as well?

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

Greg, I'll just generically answer the question in terms of overall tenant watch list. We are always proactively evaluating who's on the list, both those that come off it, those get added. Our teams out in the field are constantly and aggressively looking at those spaces in terms of sales volumes, in terms of foot traffic, in terms of lease expirations, upside, downside. And so if there's an opportunity where we think we want to proactively take it back, we're getting out in front of it.

If we have concern they're going to vacate, we're out in front of that. And so I think that's just really an overall comment for the totality of the watch list to include some that you might have mentioned and others that you didn't.

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

I'll just -- if Alan doesn't mind, I'll come over top for the bank branch. I think your observation is correct. Our exposure to the bank branches are -- I mean, I think on our significant tenant list, you've got JPMorgan, Wells and Bank of America. And so any of the regional bank branches that we have would be really immaterial.

Operator

Our next question is from Craig Mailman with Citi.

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

I just wanted to circle back to the leasing environment. You guys are pushing through escalators in a lot more leases and rent spreads remain healthy. I mean what kind of pushback are you guys getting from tenants on rent increases, adding escalators to this? And kind of where are these OCRs coming in given these rent resets?

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

So Craig, good question. Thank you. Look, I think there's -- it's widely accepted that inflation is impacting all of us to include us, and therefore, we're able to pass through a lot of these higher escalators as you saw and heard on our -- 90% of all deals had embedded rent steps, and 93% of our shops had those. And so we're having success not only getting them in our deals, but we're having them success in getting them at higher values.

I'm not seeing a tremendous amount of pushback there. Occupancy costs frankly, are going in the inverse direction because I think sales are generally going up for most of our retailers. And so will that provide an ability to push further? I think, in some categories, it will, Craig, and in others, maybe it doesn't. But they all seem to be operating in pretty healthy, reasonable levels that give us the ability to, I think, really reasonably push those going forward.

Nicholas Gregory Joseph - *Citigroup Inc., Research Division - Director & Senior Analyst*

It's Nick Joseph here with Craig. Just maybe on capital allocation. Obviously, it was quiet in the first quarter, but you did repurchase some shares. So I guess, number one, what are you seeing on the transaction market? Are things starting to thaw at all there? And then the second part, how are you thinking about additional share repurchases from here?

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

Well, I'll quarter back. I'm going to have Mike answer the share repurchase. And then we'll toss it to Nick for the overall transaction market.

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

Nick, good question. So first, on the share repurchase. Let me say that, that was largely tactical this quarter. And we outlined it in my prepared remarks, tied to a great development opportunity that we have. We want to be able to be as flexible as possible to be competitive in that marketplace. And I think this was a point at which we can differentiate.

We are obviously very keenly aware of our NAV and our perspective of value. And at the same time, when units are necessary to make a deal, we found this opportunity to hedge that transaction. And we're not big back patterns, but we will pat ourselves on the back. I think we did pretty nicely from an arbitrage perspective as well, time will tell. But that was what that transaction was designed to do, simply to hedge the unit issuance of that development pursuit which we're excited about.

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

And thank you, Nick, in regards to the transaction market, as Lisa alluded to in our opening remarks, that is a little surprising of how few data points there were in Q1. So it has been very, very quiet out there. But as we've said in the past, we're always focused on opportunities that are accretive to earnings and that are equal or accretive to the quality and the growth of our current portfolio.

And we have the capacity and the desire to act on those opportunities that meet that criteria. And so we're very focused on it and hopeful that in the near future, more opportunities we'll pop up that we can take advantage of.

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Nicholas Gregory Joseph - *Citigroup Inc., Research Division - Director & Senior Analyst*

And then just on the development side, has pricing changed at all there, relative to where it was before?

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

On the margin, I mean, look, we're eyes wide open regarding what's going on in the market. But we're, again, highly focused on making sure it's accretive to us and what is our cost of capital and how do we best use that cost of capital. And so depending on the risk profile of any transaction, we evaluate that, we decide how we're going to fund it and make sure that there's an appropriate spread there. And so we're very comfortable that the opportunities we're working on right now are accretive to the company long term.

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

It's a great opportunity for me to remind you of our significant free cash flow that we generate. And the best use of that cash flow is into what I believe the leading development program in the sector.

Operator

Our next question is from Samir Khanal with Evercore ISI.

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

Mike, on the FFO guidance, you did the $1.08 NAREIT FFO in the quarter, and I know there were some onetime items. I mean, we were looking at some of the term fees, maybe it was a $0.02 impact but even if we use [$106] sort of for the run rate, you're still getting to like [$420] for the year. And I look at your guidance and I'm just thinking, are you being overly conservative here given the macro, or is there something we need to think about that are impacting growth?

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

Samir, thanks. I'll go back to some earlier comments. Let's first identify what is timing related in the first quarter and what is uniquely onetime. So clearly, the pursuit income that we recognize is a onetime of that. Kudos to the team for being very careful with our pursuit efforts there and monetizing that value. The balance -- the higher percentage rent, that's a timing-related impact. So it will recur over time and through the years, but within the year, percentage rent is largely an earlier Q1 event. So we have to factor that in.

Our outlook for uncollectible leasing income, if you think about the Q1 being positive this quarter, we are not anticipating that we will replicate that through the balance of the year. As I mentioned previously, we think we'll float back down to our historical averages of ULI, which is in the 50-basis point area of build rents. Term fees, again, more of a -- we did guide on that element. We knew that we were going to have a significant term fee in 2023. It is a -- the $4 million payment was received in the first quarter. Clearly, we'll have to adjust for that. Some comments on term fees. We basically looking over our shoulders get $0.05 a foot year in, year out as a semi-recurring part of the business.

So that's about a run rate of a couple of million dollars, if you think about going forward. Those are some of the elements there, Samir. I think it's -- and then we have the bankruptcy and the impact that losing our Bed Bath & Beyond will have on our forward growth. So that's going back to us floating from Q1 through same property NOI as well as core earnings back down into the guided levels that we offered.

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

And then my second question is around leasing spreads. When you provided the commentary, certainly very positive around leasing. But when I look at the spreads, and again, it's still pretty good or mid-single digits growth. But if you look at the last few quarters, they've sort of decelerated, right? And I know -- look, I know it's volatile month to month. I get that, but maybe just provide a bit of color on kind of those sort of leasing spreads we're seeing.

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

Yes, Samir. I appreciate the question, and thanks for acknowledging the lumpiness that can happen certainly quarter-to-quarter with that. As we look at the last quarter, we did not have any significant new anchor transaction that was in the quarter. We did over 100,000 square feet of anchor activity in Q1, but only one deal that represented 11,000 square feet was a comparable anchor deal that's included in that. So when you look at our cash rent spreads for Q1, it's predominantly all shop leasing, which is generally lower than anchor leasing that gets the big pop.

But I'd bring you back to the 12-month trailing cash spreads of 11% on new activity. And importantly, our keen focus and success with the embedded rent steps and prudent capital spend. And so on that new disclosure page, net effective rent as a percent of base rent has been in the mid- to high 80% range over the past 5 quarters. And we're pretty proud of this metric as it's a testament to our team's efforts of achieving those contractual rent steps while prudently managing our capital spend.

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*

So maybe just circling up a little bit from a different perspective or asking it differently than Samir did. For the guidance, you assume that occupancy is kind of maybe flat to slightly down by year-end, but does it dip between now and then as a result of Bed Bath before you capture the SNO pipeline? How should we think about the quantum of that decline to maybe piece together these various pieces you've talked about on the call?

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

I mean simply -- I'll give into some details Juan, but simply, I'd say, use our guide on same-property growth. And I think -- and if you think about it -- if you're trying to sequence it from quarter-over-quarter, we know when we're losing Bed Bath. They've rejected half of our locations. And coming into the year, our exposure was in the $5 million range to that tenant.

So half of that is losing it at the beginning of Q2. And then as you think about delivering the $32 million of contracted SNO, that will come on, as I said, about 80% of it by year-end. I would sequence that pretty ratably through the year. And we're going to float down from a 6.3% Q1 post on same-property growth to a midpoint of 3% by year-end. There is a unique Q4 item that we all talked about last quarter from a recovery standpoint in our numbers. So the fourth quarter comp is a little more difficult. But I hope that helps you, and if you need anything else, we'd be happy to connect offline.

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

That's helpful. Super helpful. And then just a quick question on the reversal of cash to GAAP had a bit of a benefit in the first quarter. How is that captured in the guidance to kind of look at kind of Page 6, and what bucket does that fall under? And is there anything else assumed in terms of reversals back to GAAP for the balance of the year?

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

Yes. So the majority of those reversals will come through in our noncash guide, and we have -- so I would -- as you can see, we didn't change that guide. So our outlook hasn't -- it's $2.5 million roughly of impact embedded within there. This is a good opportunity to indicate that we are at 7% on a cash basis, and that has not changed from fourth quarter.

I would offer that given the first quarter results and the good collection rate that we're seeing out of our cash-based tenancy. Our outlook remains the same that we will continue to convert tenants to accrual through the year. As we said last quarter, we anticipate that we should be in the plus or minus 5% area by year-end. And so we're -- we haven't come off of that expectation either. There is a little bit of AR that could -- as you convert tenants that could come through as well, but it's de minimis, Juan. So I would just focus on that noncash guidance that we provided.

Operator

Our next question is from Anthony Powell with Barclays.

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

There are some press recently on some of the traditional anchors in malls like Macy's and Nordstrom expanding their smaller format shops. Are you seeing some of that activity in your leasing pipeline?

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

Anthony, thank you for the question. The short answer is yes. So Macy's is doing Market by Macy's. They've got their sister company, Bloomingdale Outlet. Nordstrom, you referenced is really expanding their Nordstrom Rack concept, one that we just signed down here in Jacksonville. So they're out there. They're aggressively doing it. And I think that entire really off-price category is rocking and rolling right now.

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

And maybe one more on percentage rents. I get that it will be lower this year, but there was a big kind of year-over-year increase. How should we be modeling percentage rents just going forward, say, next year, either on a -- as a percent of base rent or year-over-year growth?

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

I'll give you some big picture items that will help you. Number one, it's up year-over-year. We've actually increased our percentage rent in 2 consecutive first quarters by over 40%. However, it's a small number. So we only -- we get about 1% of our total revenues out of percentage rent. And I would think about that in your longer-term modeling that we should keep that level pretty consistent. It is front-end loaded. So the majority of what we recognize in percentage rate income will occur in the first quarter.

We will have more percentage right through the balance of the year, but the majority is in the first quarter.

Operator

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

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Elizabeth Y Doykan - *BofA Global Research - Equity Research Analyst*

I just was curious about the G&A line item that was revised up by $1 million for full year. And not too meaningful, but just wanted to see what drove the increase in expectations there and if anything could be noted as recurring or if we should expect more variability to that as we get through the year.

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

Thanks, Lizzy. Really, just a lot of odds and ends in the non-salary line items as we look out for the balance of the year and kind of tightened up our reforecast. It is what it is. And we just kind of refining that estimate for everybody looking forward. There's -- I wouldn't identify any trends any way or the other. It's really just a refined outlook.

Elizabeth Y Doykan - *BofA Global Research - Equity Research Analyst*

Got it. And I was hoping to get more details on a couple of the projects you had discussed at the opening just on the development in the New York metro area and the master planned community in Metro Houston, understand if you are waiting to share more details once you're able to add it to the pipeline, but just seeing if there's anything unique to each of those projects that you think you could find in other opportunities in the near future? And what particularly drew you in about the markets for these specific projects?

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

Absolutely. Thank you for the question, Lizzy. Yes, as it relates to the New York asset, at this point, we can't disclose more. We have not yet closed. But as I mentioned in my opening remarks, we're excited about the opportunity and looking forward to in the not-too-distant future, being able to give more details. As it relates to the Houston opportunity, we did close on that earlier this week and are very excited about that project, although again, relatively small, approximately $10 million.

It is located within a very thriving master planned community. So to be one of the only retail component servicing that community is really a blessing. And those are the type of opportunities we're looking for, where we know we have a very captive audience. And as I referenced, we do plan on expanding that opportunity in the future. And so we do think there'll be future phases to grow that opportunity as demand continues to increase in that submarket. And so excited to bring that on board and again share even more details next quarter when it comes into our in process.

And then just generally speaking, as I said, development is never easy. And we're well aware of some of the headwinds that are out there facing development and how challenging it is. But as I said, we have the 3 cornerstones that are critical, especially in this environment to execute, which is the right expertise, the right capital and the right relationships. And grocers are continuing to expand. They've had very good years. We have great relationships with the grocers across the country, and we continue to evaluate really coast-to-coast. Those opportunities one by one, and the team is doing a great job of figuring out which ones we think we can help with, which ones we think we want to own long term and therefore, deploy our human and financial capital.

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

And Lizzy, our overall development strategy just follows our investment strategy. And we want to invest in shopping centers that have a long-term sustainable competitive advantage where we're going to be able to grow NOI over the long term. And these 2 developments, New York and in Houston, fit that criteria.

Operator

Our next question is from Wes Golladay with Baird.

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Wesley Keith Golladay - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I just want to stick with Bed Bath & Beyond. I think you said you 5 of the 10 rejected, and you're not going to get any rent from those assets at the beginning of this quarter. But once you get rent during a liquidation, while they liquidate the inventory? Or have they been doing that, I guess, behind the scenes?

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

Yes, so prepetition rent, you obviously would lose, and we planned -- and we estimate that to be about $0.5 million less, given what they were paid current through first quarter and what we will lose into the filing date. And then post petition for the 5 that have not yet been rejected, we would continue to collect rent through their -- through the event that may or may not happen, which could be an assumption of the lease in the bankruptcy itself or a future rejection. As we indicated, we've -- at the midpoint of our guidance, we've accommodated for the worst-case scenario, which would be a full liquidation of the chain. We think we have some pretty -- we know we have some pretty good locations.

The ones that have not yet been rejected, we like all of our opportunities, we really like those and there's -- which also tells us there's a chance that they could be picked up in auction. So we'll be paying very close attention to the proceedings there. But that's -- hopefully, that helps you think about the financial impact of Bed Bath.

Wesley Keith Golladay - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, it does. And then sometimes, I remember at Sears at kind of unlocked some bigger projects for you, some larger scale redevelopments. Anything -- any of that potential here with Bed Bath? And what is your hurdle now with today's capital markets for some bigger projects?

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

I'll start with Bed Bath and let Lisa or Mike answer the capital question, but -- the short answer, Wes, I appreciate you asking that. There's one Bed Bath that we are evaluating the merits of whether or not we want to entertain redevelopment, but generally speaking, this really is just a re-leasing exercise for us as all it is.

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

And with regards to redevelopments, I mean, that follows and flows directly with our development strategy. We look at those in the same manner. If we can use our and invest our cash accretively and if we are improving and enhancing an existing center and fortifying that future NOI growth while getting a really attractive investment return, we'll do as much of that as we can.

Operator

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

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

Your shop space is the most valuable portion of your portfolio was, I think, Lisa, you've alluded to in the past as well. And the beauty is you have over 50% of your ABR comes from the shop space and a big trend, 2/3 of your SNO pipeline in the shop space. Could you remind us again what your peak shop occupancy was? And where do you think that could go over the next 2, 2.5 years or so?

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

I'll do the reminder, and I'll let Alan color up his -- what he thinks about our guide -- our glide path to achieving it. We peaked over 93% from a shop occupancy perspective. That was at a point in time when I think we would all look at each other and agree that our portfolio is better today than it was then. I think even the demand -- supply and demand characteristics of today are better. I'm not promising you that we will significantly outsee those peaks, because those are pretty high levels of occupancy but 93.3%, I think, was in that area was our peak.

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

Yes. And as you know, we're at 92.1% right now. And I would just go back to the pipeline of really great deals that are falling up. And I'd put on top of that our upcoming Vegas ICSC show that's here at the end of May, the amount of meetings the teams already have scheduled and the attendance that we anticipate from the retail community is really strong. So we have the runway, and we're planning to continue to set our sights high.

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

And I appreciate you remembering that we say that. And I think what's really important when you think about where we sit today versus that peak occupancy. And you've heard us say this, really coming out of COVID. We feel really good about the health of our in-place shop tenants. We believe that there -- it's as strong as ever.

And what makes shop space so valuable is the fact that there's change as it happens in our business. We say that all the time. There's always going to be some tenant failures. But what makes that so valuable is that we're able to replace it relatively quickly versus an anchor box with a lot less capital, and the rents are higher. And so that's what makes that space so much more valuable. We're able to continue to get really good annual contractual rent steps in the shop space in addition to leasing spreads upon new leasing. And that's what makes that space so valuable to us. We are not afraid to shop space. That's what you've heard me say over and over again.

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

No, I appreciate that. Maybe if you can -- you've talked about the rent bumps. And to me, that's one of the most underrated aspects of the business and sort of the cruising speed that, that produces. You mentioned that almost all of your shop space has fixed rent bumps, are you getting 3% rent bumps? And how do you see that your cruising speed evolve as you sign new leases?

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

Yes, Floris, I appreciate that question. Yes, we are having more success at higher rent bumps. And I would tell you, historically, if you were to rewind the clock pre-COVID, I would say our teams are probably asking for anywhere between 2.5% and 3% in the shop leasing sector. And now we're starting at 3% to 4%, depending on the circumstances or even in some cases, higher. And so it has evolved. I do think it's become a bit more of a commonplace of where we are. And for the foreseeable future, I certainly expect us to continue down that path.

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

Maybe last but not least, just I hear Wegmans might be coming to Connecticut. Any chance that you guys might be involved in that?

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

I'm looking at Alan.

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

We are not involved in that, Floris. Sorry, I didn't know who was going to answer that, whether it was Nick or myself. But we're hearing the same rumors. So they'll be great for the Connecticut community if they end up making that happen.

Operator

Our next question is from Mike Mueller with JPMorgan.

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

So for the 2 questions. The first one, what are the characteristics of the 7% to 10% of leases where you're not getting the rent escalators? I think you talked about 90% or 93% before. So the ones where you're not getting it. And then as we look at your development, redevelopment pipeline, I think it's like $50 million new, $250 million redevelopment. We're thinking about the shadow pipeline, what's the mix going forward in the shadow pipeline? Is it -- does it have a healthy component about new development opportunities as well?

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

Mike, this is Alan. I'll answer the first part. It's pretty simple. It's simply options that are getting exercised that don't have embedded rent steps. That's the 7% to 10% you mentioned. I'll kick it to Nick.

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

Mike, as it relates to the second part of your question, I appreciate it. And you're absolutely right. I mean as we continue to push forward, we're always pruning our portfolio and looking for opportunities to reinvest in it. And we've given you some visibility on some of the opportunities in our investor deck as it relates to those future redevelopments. But clearly I can't disclose sort of the same level of detail on potential ground-up developments that we don't yet own.

And so I'll tell you, our shadow pipeline is very focused on that mix, including ground-up developments.

Operator

(Operator Instructions) Our next question is from Ronald Kamdem with Morgan Stanley.

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

Great. Just a couple of quick ones. Just trying to understand over the sort of the recent events with the banking system, if there's been sort of any ripple effects of the business? And I'm thinking of it in 2 or 3 different ways.

One is as you guys are thinking about this future redevelopment pipeline opportunities of $115 million to $150 million, I see in the presentation, does anything change about your timing or conviction to getting those done? And the other piece of it is, obviously, on the acquisition front, have you seen sort of more activity?

You guys are in a great liquidity position, does that create opportunity? And then I'd love to hear from a tenant perspective. Clearly, the bad debt is feeling pretty good. It went down in the guidance, but are tenants sort of talking about it, feeling it? Just trying to understand if there's any ripple effects we should be thinking about.

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

Ron, I'll start, and Alan can hit the tenant piece, and Nick may add some color. But generally speaking, we have not seen any impacts yet from whichever word you want to use to describe what's happening in the banking market right now, crisis, turmoil, certainly some challenges. I'll remind you from our own personal perspective, we're using free cash flow to fund that. And we knock on wood, do not have any challenges or issues with access to capital beyond that.

So then it becomes, how are we thinking about an underwriting the new leasing that's associated with our developments. And I think, as you know, we are very disciplined with our development program. We don't do speculative development, and we're not going to start a new development until we have real visibility to signed leases. And we're -- as we talked about, we continue to try to look around the corner and see if there are signs of softening or impacts to the business, and we have not seen it yet. And development is not something you just flip the switch on or off.

They take -- it's a cycle. It takes some time. And it's an important part of our growth profile. And we have developed through cycles in the past successfully, and we expect that we will continue to do the same. We're just a little bit more cautious as we think about our underwriting, and I think that that's appropriate and prudent.

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

And Ron, from a tenant perspective, the short answer is no. We're just simply not hearing that at the property and portfolio level. That said, our team is utilizing currently on a proactive basis and enhancing programs that we started during COVID to support our tenants. And so we've got a tenant mentorship program. We do webinars for them. We've got this proprietary merchant success toolkit.

And so we're prepared to not only proactively deal with that, but should that tide turn, have the resources there for our retailers to partner with them and help them through that process.

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

I'll jump back and I apologize, I missed your acquisition question. We've been saying it, we are on our front feet. We believe that we are really well positioned to take advantage of any dislocation in the market and compelling opportunities. As we've discussed, we haven't seen a lot come to market, but we're ready if they do. We have the capital.

And as Nick said when he answered the earlier question, as long as we are able to invest that and acquire accretively. And it's equal or accretive to our quality and our growth rate, we're poised to act.

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

Great. And then just my last one. Just any quick updated thoughts on the Kroger Albertsons situation and views for the company.

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

I think if you were to go back and probably read my answer from the last quarter, it would say the exact same thing I'm going to say right now. And that is we don't have any information that you don't have. We have really good relationships with both of them, and it just continues to unfold.

The either way it goes, I think, is something that will be good for us. For some reason, the merger doesn't go through, we have 2 really good grocers in really good locations, and it will be business as usual. If the merger does go through, you'll have a larger operator with greater scale, greater ability to invest back into their business. And we feel really good about our locations and our real estate for those that may be part of their divestiture plan.

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

All right. One more, sorry I had in my notes, I missed it. But -- so we've been hearing about sort of the insurance costs and premiums on property in Florida, other markets and so forth. Clearly, you guys -- you charge some of that back to the tenant. But are you guys -- how are you guys thinking about that at all? Has that come up? What's the thinking there?

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

Ron, it's Mike. Yes, absolutely thinking about it. With the recent renewal behind us, the team did an extraordinary job renewing our policy but not without a little bit of pain. The markets are very difficult. They're challenging. We have from a results perspective, we're planning -- we're expecting about a 15% to 20% increase in that line item.

More on that in a second. But our access to insurance, I think, is better than most, given our scale our quality, our moss track record, the way we maintain and think about our properties. So that is a kudos to the team, because access at a small scale level is challenging today, not just about price but about access. With respect to that 15% to 20% increase in the line item, it is a relatively small component of the tenant's rent.

So when you think about the bleed or the pass-through, we can pass it through. It is through our lease contracts, we will pass that through. It's in the neighborhood of $0.10 a foot to a tenant. So again, it's a pretty small component. So we feel like we've mitigated that risk or challenge to our forward growth and again, I think time will tell when and if the insurance markets soften. But today, it's challenging.

Operator

Our next question is from Greg McGinniss with Scotiabank.

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

Just wanted to talk about the transactions and potential development pipeline again, just for a couple of points of clarification. Is the $90 million cited from the New York Metro area development inclusive of acquisition and development costs? Similar question for Houston and whether you need additional land acquisitions for future development phases there, if you're securing that with that first investment.

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

Sure. So it's speaking to New York, yes, that's all encompassing all costs. So that would be the acquisition cost of the property as well as future investment to build it out in its entirety. So that's all encompassing the future investment for that opportunity. And then the second part is I want to make sure I understand it. I believe you were asking about the Houston opportunity. Are we comfortable with the current phase if the future phases don't happen? We are. And so we would never purchase an opportunity if we weren't comfortable ultimately just owning it as is, where is.

But that being said, given its small scale, we are hopeful. And we do have an expectation that future phases will be added. But if they don't, we're very comfortable owning what we purchased and building it and have tremendous demand already for the retail space we anticipate building.

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

Yes. Sorry, I was also saying for the Houston whether you'll need to acquire additional land for future phases or if you're still carrying that with the $10 million.

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

Great question. Yes, we have control over adjacent property. And so as part of this acquisition, it also gave us extended control over adjoining property that we're focused on for future phases. So this acquisition is just for the portion of property we're going to build Phase I on. But we do have definitive control over the adjacent property for future phases.

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

Okay. Great. And then what are the targeted returns on these development projects that make the additional risk worthwhile maybe versus something like redevelopment. I mean, I know you've -- Lisa, you said that you're not taking risky investments here, but inherently with development, there's got to be a little bit more than where you already have the cash flow. So just curious what expected returns might be.

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

Yes. No, great question. As I said before, we really look at opportunity by opportunity. And so each one of these developments, we're analyzing, we are definitely looking at what we believe the future value of that asset is to make sure we're comfortable with the ingoing yield. And so to give you an example, that Houston asset will be developed at approximately an 8% return. So that gives you one data point of where our eyesight was as it relates to that transaction.

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

Okay. Great. And just final one for me. Are these investments the type that Lisa was previously referring to? I think it was the Q3 call, at least initially on the Q3 call regarding smaller developers about access to capital. And does that feel like a growing opportunity as bank lending becomes potentially even more scarce going forward?

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

Great question. I mean I would say exactly that, the inverse of the banking challenges out there are -- it is creating opportunities for us -- continued opportunities. As Lisa has mentioned multiple times, we have available capital, and we have a desire to play offense. And so there's some quality developers out there that are very capable. They have great relationships and contacts, especially locally. But right now, capital is their issue, no question. If there's any place that capital is most restricted, as we all know right now, it's construction lending. And so we have the ability to step in and not only bring capital but bring relationships and expertise to help some of these deals figure out waiting over the goal line.

And many times, it takes more than just capital. It does take expertise to dig in with them, figure out where we can be cost effective regarding budgeting, pricing, et cetera, as well as deal with the retailers as it relates to relationship potentially restructuring transactions. And so we are very engaged with local developers to help fill in wherever the hold may be on these projects that have challenges at the moment.

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

And I just -- I want to reiterate that, because I think that's a really important point that Nick just said. Our relationships with the retailers or especially the grocery anchors that are driving a lot of our developments shouldn't be underestimated because they know we can perform. And in times like this, that is extremely important, and that is also helping us to drive that development pipeline and build it further.

Operator

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

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

Thank you all. Appreciate your interest in being with us today. And everyone, have a nice weekend.

Operator

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

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