REFINITIV STREETEVENTS

EDITED TRANSCRIPT

REG.OQ - Q2 2023 Regency Centers Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2023 / 3:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

Viktor Fediv *Scotiabank Global Banking and Markets, Research Division - Associate*

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

Sanket Agrawal *Evercore Inc. - Equity Research Associate*

Eric Borden *BMO Capital Markets - Senior Associate*

PRESENTATION

Operator

Greetings, and welcome to the Regency Centers Corporation Second Quarter 2023 Earnings Call. (Operator Instructions) And as a reminder, this conference is being recorded. It is now my pleasure to introduce to you, Christy McElroy, Senior Vice President of Capital Markets. Thank you, Christy. Please go ahead.

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

Good morning, and welcome to Regency Centers' Second 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.

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. Today's discussion may also contain forward-looking statements about the company's pending merger with Urstadt Biddle, including forward pro forma earnings accretion estimates and projected timing of the merger close. While we currently expect the transaction to close in mid- to late August, the closing remains subject to shareholder approval and conditions being satisfied or waived. Lisa?

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

Thank you, Christy. Good morning, everyone. We appreciate you joining us. We again had a really strong quarter, in fact, one of the strongest and most active quarters in Regency's history. Our success came from all facets of the business, including leasing, development starts and, of course, the Urstadt Biddle merger announcement in May.

I said many times since we emerged from the pandemic, that Regency is so well positioned for sustained growth and that we're on our front foot ready to capitalize on opportunities. Our achievements in the second quarter reflect this. They reflect the exceptional work of our team, supported by the strength of our portfolio, the current retail environment and our balance sheet position.

As we all know, there is still uncertainty in the macroeconomic landscape, but at Regency, we've not seen any signs of softening. As evidenced by our results, the fundamentals of our business remain very healthy and operating trends are strong. From a leasing perspective, tenant demand is robust, and the second quarter was one of our strongest quarters ever, and it's supported by sustained momentum in our LOI and lease negotiation pipelines.

Tenant bankruptcies are playing out as we expected, but importantly, our exposure to these retailers is limited. From a capital allocation perspective, most of you know that we have been acutely focused on ramping our development and redevelopment activity back to our strategic goal of a pace of $200 million to $250 million of average annual investment.

I'm really proud and gratified by the success demonstrated by such a strong second quarter for new project starts. Nick will discuss our activity in more detail, but creating value through development and redevelopment has always been a core competency of Regency, and it is a competitive advantage for us that is often overlooked.

As I've said before, I believe we have the best team and platform in the business. And with ground-up development, we can really move the needle in an environment where new supply of high-quality centers is lacking. Even as we ramp our activity, our pipeline will continue to be self-funded on a leverage-neutral basis with free cash flow, driving accretion and a sustainable component of our earnings growth above and beyond the organic same-property NOI growth that are high-quality, well-located properties are generating.

With regard to Urstadt Biddle, we're proud of this transaction and are excited to integrate both the shopping centers and many of their people into Regency. These centers align so well with our own and meaningfully expand our presence in these strong trade areas in the Northeast. The teams on both sides are working hard to effect an efficient and timely merger close.

As Mike will discuss, we expect it to be immediately accretive to our core operating earnings, and we also look forward to unlocking value within the combined portfolio under the umbrella of our leading national leasing and asset management platform. Another highlight of the quarter was the release of our annual corporate responsibility report in late May. This report is a synthesis of our commitment to ESG and the many initiatives driving us forward. We are extremely proud of the progress that we continue to make towards achieving our long-term goals. The principles of our program are embodied throughout our organization and are integral to achieving our strategic and financial objectives.

Before I turn it over to Alan, I'll reiterate that Regency is very well positioned in this environment given the strength of our assets, the trade areas in which we operate, supported by the solid fundamentals of the grocery-anchored suburban shopping center business today.

Our liquidity and balance sheet position will allow us to remain opportunistic driving sustainable cash flow growth going forward. Alan?

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

Thank you, Lisa, and good morning, everyone. We continue to benefit from a strong retail environment as demonstrated by another quarter of fantastic operating results, particularly on the leasing side. New leasing volume year-to-date is 40% above our historical average. And in the second quarter, we achieved our highest shop new leasing volume in over 10 years.

As a result, we increased our shop leased rate by another 60 basis points sequentially to 92.7%. Our overall same-property leased rate is up 10 basis points in the second quarter despite 60 basis points of occupancy loss due to bankruptcy, further validating the strength and quality of our portfolio.

Exceptional second quarter leasing activity also came with strong cash rent spreads of 12% on a blended basis and nearly 30% on new leasing. Our continued success with contractual rent steps is reflected in our GAAP rent spreads of 20% on a blended basis. This strength in our operating trends helped us drive another successful quarter for same-property base rent and NOI growth.

Tenant demand is coming from a broad range of categories, including but not limited to grocers, off-price, medical, restaurants and pet services. Our signed but not occupied pipeline represents over $30 million of annual incremental base rent, and our same-property occupancy spread remains wide at 250 basis points.

Even as executed leases commence each quarter, we continue to replenish our SNO pipeline with the execution of new deal. As we look ahead, our leasing pipelines remain full, with another 1 million square feet under LOI and lease negotiation.

Our second quarter activity did include a mix of larger space deals with longer lease terms, which resulted in elevated per square foot leasing CapEx. But importantly, net effective rents remain in line with our historical average.

With regard to backfilling our former Bed Bath & Beyond spaces, we are executing our vision and making excellent leasing progress. You'll recall that our exposure at the time of the bankruptcy filing a quarter ago was 50 basis points of ABR.

Two of our locations were purchased at auction by Burlington and Michael, and we have fully executed leases on 3 additional spaces. We have significant interest on the remaining spaces and our team is actively negotiating with multiple prospects, including the in-process pursuit of redevelopment projects at a couple of the locations.

Overall, we anticipate marking them our rent by approximately 20% to 25% on average for our former Bed Bath stores. As we've noted previously, we feel confident in our ability to re-lease our high-quality real estate when tenant bankruptcies occur often at higher rents and upgraded tenancy.

In closing, we recognize that our success in the second quarter is not only reflective of the current environment and the strength of our assets but of the hard work of our best-in-class leasing and operating team. We see that momentum continuing as we work in the coming months to integrate Urstadt Biddle's people and high-quality properties and create even more value through the combined portfolio. Nick?

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

Thank you, Alan. Good morning, everyone. We had a very productive and gratifying quarter for development and redevelopment activity. We started several exciting new projects and made great progress on leasing and construction across our $400 million in-process pipeline while maintaining costs, returns and timing consistent with our underwriting.

We also continue to build our future pipeline of projects and see meaningful opportunities for incremental investment. In the second quarter, we started 12 new development and redevelopment projects totaling $175 million. That is an impressive amount for Regency, and I'd like to thank our development teams for their efforts.

As these projects start to reflect years of hard work behind the scenes, getting us ready to commence construction at these sites. The first project I'd like to highlight is SunVet. The $90 million Whole Foods-anchored ground-up development on Long Island that we spoke about last quarter.

The properties in (inaudible), New York and located on the heavily trafficked east-west artery of Sunrise Highway, which is the dominant retail corridor in the market. Construction commenced on the 170,000 square foot center in May, and we anticipate Whole Foods opening in 2025.

We already have signed leases with Starbucks as well as Citibank and have seen significant leasing interest from many other best-in-class retailers. In the second quarter, we also started Phase 3 of our redevelopment of Serramonte in Daly City. This project will allow us to transform the Northeast quadrant of the property, including the redevelopment of the former JCPenney space with a world-class Asian food market as well as the development of 2 new small shop buildings adjacent to Macy's.

We continue to see significant demand throughout all components of this asset and look forward to even more value creation in the future. We also commenced redevelopment of our Whole Foods-anchored, Mandarin Landing in Jacksonville, which will include a new 25,000 square foot Baptist Health Medical Center, additional shop space and a new two-tenant pad building.

In addition to the development and redevelopment starts, I'm appreciative and proud of the work our teams have done completing 5 projects during the second quarter, which will collectively contribute more than $5 million of annual rental NOI. The largest of these projects was our $55 million redevelopment of the Crossing Clarendon in Arlington, Virginia, where our leasing and construction teams did an amazing job further solidifying the asset at the center of gravity in the Rosslyn-Ballston corridor. The project is now 100% leased with an incredible tenant mix, including a new state-of-the-art flagship lifetime, which had a very successful opening a few weeks ago.

Looking ahead, our teams are laser-focused on sourcing new investment opportunities. These include redevelopments within our existing portfolio as well as new ground-up development projects. The 3 cornerstones of Regency's development strategy, our capabilities, our capital and our contacts are more relevant than ever in the current environment.

Our leading grocers continue to expand, and we are one of the few developers that have the ability to help them execute on their desire to locate with a new high-quality shopping centers throughout the country. We continue to build our pipeline to achieve our strategic objective of more than $1 billion of project starts over the next 5 years of our expertise and our long-standing relationships, combined with our access to capital, uniquely position us to capitalize on opportunities. Mike?

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

Thanks, Nick, and good morning, everyone. I'll start with highlights from our second quarter results, walk through a few changes to our current year earnings guidance, provide some estimates for accretion related to our pending Urstadt Biddle merger and finish with some comments on our balance sheet position.

We grew same-property NOI by 3.6% in the second quarter after excluding the impact of COVID period reserve collections. Importantly, the largest driver of growth continues to be base rent, contributing 380 basis points to the NOI growth rate in the quarter. As we've continued to stress on previous calls, base rent growth is the most important indicator of our portfolio's performance.

And in Q2, our growth was driven by the combination of embedded rent steps, positive releasing spreads, growth in occupancy and redevelopments coming online. Turning to 2023 guidance. As I'll refer you to the helpful detail on Slides 5 through 7 in our earnings presentation. Driven by another strong quarter of leasing, incredibly strong, if I may add, and greater clarity around the current operating environment and bankruptcy impact. We've raised the bottom end of our same-property NOI growth range as well as our ranges for NAREIT FFO and core operating earnings.

With more certainty at the margin, we have eliminated some previous downside scenarios. Our updated same-property NOI growth range is now 3% to 3.5%. While we've maintained our total credit loss assumption at 60 to 90 basis points, we now expect a greater contribution from average commenced occupancy, benefiting from strong shop leasing through the first half of the year and absorption more than offsetting the negative impact from bankruptcy closings.

Same-property NOI is the primary driver of the $0.01 increase in the midpoint of our core operating earnings guidance range. With the Bed Bath auction behind us and the outcome of those stores now known, we now have clarity on impact from the acceleration of below-market rents tied to those locations.

For the full year, we anticipate roughly $6 million of accelerated below-market rent within our noncash guidance, about half of which has been recognized year-to-date. Our full year noncash guidance also includes $3.5 million of expected impact from the reinstatement of straight-line rent associated with the conversion of cash basis tenants back to accrual up slightly from a quarter ago.

As a result, we've raised our assumption for noncash items to plus or minus $37.5 million, positively impacting our NAREIT FFO range, the midpoint of which is up $0.02. For those that are undoubtedly starting to think about 2024, we consider both of these items, combining for $9 million to $10 million of noncash revenue this year to be nonrecurring in nature.

And speaking of nonrecurring items, our guidance for COVID period reserve collections for 2023 remains unchanged at $4 million. As we thankfully reached the last of our collections on deferral agreements, and with only 5% of our tenants on a cash basis of accounting today, we are not currently anticipating any material COVID period collections to recur in 2024.

These updated guidance ranges and the details I just reviewed remain on a Regency stand-alone basis only and do not yet factor in any impacts from the Urstadt Biddle transaction, which we expect to close by the end of this month.

We will provide updated current year guidance with more detailed assumptions on a pro forma basis when we report our third quarter results, so more to come. But in the meantime, we are prepared to offer a high-level outlook. Our expectation is to deliver incremental per share core operating earnings accretion of $0.01 in 2023, reflecting about 4 months of impact and plus or minus 1.5% accretion for the full year of 2024, which continues to include an estimated $9 million of annual G&A cost synergies.

Importantly, this accretion estimate is for core operating earnings, not NAREIT FFO as it does not include any impact to noncash items. The teams are making excellent progress with integration prep, and we're all excited for the merger closing and the future prospects of the combined company.

I'll finish by highlighting the strength of our balance sheet, which is the foundation of our capital allocation strategy. With one of the strongest balance sheets in the overall REIT sector, our leverage remains at the low end of our targeted range of 5 to 5.5x debt to EBITDA and will remain so following the close of Urstadt Biddle merger.

We are generating significant free cash flow, expected to approach $150 million this year, self-funding our growing investments pipeline that Nick highlighted previously. And we have access to meaningful liquidity through our $1.25 billion line of credit with less than 10% of our total debt maturing through the end of 2024.

I can't stress enough the importance of our balance sheet strength and allowing us maximum flexibility throughout economic cycles and providing us an ability to remain opportunistic as the team executes on our investment strategy.

With that, we look forward to taking your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from the line of Craig Mailman with Citigroup.

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

Lisa, I just wanted to touch base on the transaction market. Clearly, I know you guys have UBA in the pipeline here. But a lot of your peers have been talking about maybe a little bit of a thawing in the acquisition market. I'm just kind of curious what you guys are seeing if there's even an appetite to buy one-offs or if the focus now is just on redevelopment pertaining within the portfolio and what you guys are going to bring into the portfolio after the merger closes?

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

Yes. I appreciate the question, Craig, but my first order of business is going to be to toss that to Nick.

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

Craig, I appreciate the question as well. So yes, as you guys have been hearing and seeing close activity definitely still remains then, but there's no question. We're seeing the pace of opportunities coming to market accelerating and that bid-ask spread is tightening.

And so we are starting to see data points come up somewhere in the range of low 6s to 7s on a cap rate. But on certain deals, we're seeing them definitely even drop below 6 depending on the growth rate and the size. And so we are actively pursuing these opportunities, underwriting them, understanding them.

And as always, if we see an opportunity that we think is equal or accretive to our quality and growth rate and accretive to our earnings, then we're ready to move forward. As Mike just indicated, we have the capacity to do so.

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

Great. And then just shifting to leasing. You guys had some good absorption here in the shop portfolio. I'm just kind of curious just monitoring whether the banking issues have had any impact. Just are you guys seeing any particular vertical of tenants maybe backing off here? Or is the access to capital not been an issue at all and it kind of continues to be across the board, demand for that the shop space?

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

Yes, Craig, it's Alan. We have not seen any backing off just yet. And so there's been no impact to your banking question at all. In fact, I would take us to our pipeline, which we feel really good about where we have nearly 1 million square feet still in the pipeline that is in active negotiation right now. So nothing just yet.

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

Of that 1 million square feet, how much of that would be shop? And where could we see that lease rate kind of tick to in the next couple of quarters?

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

It probably leans more towards shops on the pipeline side, Craig, but it's really across the board just in both anchor and shops in terms of the activity. I think there's a lot of junior box retailers that just haven't had the ability to identify spaces given limited supply and, of course, the Bed Bath & Beyond is I think, opened a bit of that. So again, I think it's really -- it's addressing the totality of the portfolio, but leaning towards shops.

Operator

And the next question comes from the line of Sanket Agrawal with Evercore ISI.

Sanket Agrawal - *Evercore Inc. - Equity Research Associate*

So I just -- I was just curious around leasing activity. As we saw that leasing activity picked up again in second quarter after being low in first quarter. So we just wanted to understand how are the leasing conversations as of today and as we model spreads for second half and into '24?

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

Can you just repeat the last part of that is you're seeing an uptick? Sanket?

Sanket Agrawal - *Evercore Inc. - Equity Research Associate*

So basically, leasing activity were up this quarter, right? So we just wanted to know like what are the -- as model spreads for second half of this year and for '24? What are the leasing conversations on the ground today?

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

So Sanket, I'll go ahead and see if I can answer that question. So the leasing conversations on the ground still remain really positive. We're very proud of, I think, the certainly, the spreads that we achieved in the second quarter. I think as you saw, it was almost 30% on new leasing.

And I think really a lot of that was a function of the mix of our anchor and shops where we had a little bit more on the anchor front. But if you look at just the shop spreads for the quarter and you're going to take a few of those anchor deals out, we were still in the mid-teens, which is really exceptional.

And I'd probably bring you also towards our GAAP rent spreads, which were 44% and again, really outstanding for the quarter. And I think that ties into the focus the team has on embedded rent steps and really speaks to the strength of the market to your question.

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

And I'd come back to just our opening remarks is just the overall strength of our business in suburban, especially grocery-anchored shopping centers. And anecdotally, we are hearing that with inflation abating some, our tenants are benefiting from that as well from a cost perspective.

And also there's been improvements on the labor front. So with all of that, again, that's the leasing conversations on the ground. We don't have any hard and fast evidence, but it is anecdotal, and we do have great relationships with our offices across the country and with our people really close to our centers. So again, we see continued strength at this point.

Sanket Agrawal - *Evercore Inc. - Equity Research Associate*

Okay. And I have a follow-up, sir. As you guys expect to close the UBP, Urstadt Biddle acquisition this quarter, so did you guys like study the difference in base rent or is that Biddle's portfolio has versus your portfolio in similar markets? So what is the gap there behind how much you guys are trying to acquire on that side as you take over that portfolio?

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

I'd just bring you back to, again, that we're really excited about integrating these properties into our portfolio under our platform. As you heard us say when we announced the merger, and as I think we just reiterate it today, we do believe that there is going to be some upside from leasing and really capitalizing on bringing that into the Regency leasing and asset management platforms.

Operator

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

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

If I can start off with a really boring question. Can you just help me go back to that below-market rent topic? How should -- you had a little bit more in this quarter. How should that trend throughout the year? I'm just curious if there's going to be a bigger burn off point at some point in '23 or '24?

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

Ki Bin, before Mike answers that, there are no boring questions, and there are no bad questions.

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

I will limit my spot to '23. I mean much more to come on '24 as we finish out the budgeting process but this -- which will kick off later this summer, and we'll offer more guidance later this year.

But you bring up a good point, I mentioned on the call, there will be a burn off really targeted to the Bed Bath & Beyond spaces in particular. So we are anticipating losing another $1 million of noncash income just simply related to them in the second half versus the first.

So you should plan for that as we think about our full year guidance. And hopefully, that helps you with what you're looking for on that item, plus in my prepared remarks with respect to the reinstatement of straight-line rent as well, not recurring.

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

Okay. And at high level, California is obviously your biggest market. And I'm just curious if there's been any discernible trends in terms of traffic or spending patterns when you compare California to your other markets and kind of any standouts?

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

Sure. Thanks for the question. This is Nick. So definitely not seeing any difference in California to the rest of the country. We're seeing strong demand across the board, and that is inclusive of California, in all aspects of California. And I would even point out even in the Bay Area because again, the majority of our properties are in the suburban markets that are still seeing significant demand. And so we're very, very pleased with the activity, the demand and the leasing velocity we're seeing out west.

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

And if I could squeeze a quick third one here. The New York MSA occupancy dropped at 82%. Was that just deleasing for development or anything you can share on that?

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

Ki Bin, I think that, that's the vacating of our grocer in Manhattan, The Food Emporium deal. So again, we can't announce who that tenant is, but we've already executed a lease to replace a majority of that space, so more to come in the next quarter.

Operator

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

Eric Borden - *BMO Capital Markets - Senior Associate*

It's Eric on for Juan. According to your prepared remarks, it sounded like you had 60 bps of occupancy loss related to the Bed Bath & Beyond potentially other bankruptcies. I was just kind of curious on your expectations for the third quarter and the remainder of the year?

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

Eric, from a percent lease perspective, I mean, this has changed from last quarter. Last quarter, we were communicating an expectation that by year-end, percent lease could be actually down modestly as a result of that Bed Bath & Beyond filing. But given the team's incredible leasing activity in the shop category in the second quarter, we're now anticipating being up modestly as a spot percent lease rate by year-end.

So super excited about that here at Regency. However, from a commenced perspective, we are anticipating that, that commenced spot rate at year-end is going to be slightly down and that's only a matter of time as we deliver the assigned and not occupied pipeline going into '24. So really, the seeds that were planted in the second quarter and the leasing that the team delivered from a leasing perspective, that's all going to pay dividends for us as we turn the calendar and move into '24. Not to mention the fact that we're making incredible progress on the releasing of the vacated Bed Bath stores as well.

Eric Borden - *BMO Capital Markets - Senior Associate*

Okay. That's helpful. And then just following up on the SNO pipeline, that $30 million of ABR. Could you just talk a little bit more about the timing of that commencement there in '23 and then into '24?

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

Sure. Yes, you've got a 250 basis points, about $31 million of rent. That's about 3% of our ABR. And I'd say it's roughly half by year-end this year and all of it -- nearly all of it by the end of next.

Eric Borden - *BMO Capital Markets - Senior Associate*

Okay. That's helpful. And then last one for me. just given the acceleration in the leasing spreads, both on a cash and a rent per GAAP basis. I was wondering if you could just quantify the annual bumps in the second quarter? And is that a new trend? Is that expected to be the floor there? Any color on that would be very helpful.

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

What are we getting -- sorry, Alan, what are we getting in from a leasing bumps perspective in our current activity?

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

Yes. No, Eric, thank you for that question. We are getting 100% of our new deals had steps this quarter. So very proud of that number and appreciative that the team has embraced the importance of embedded rent steps. And I would say 2/3 of those deals had escalators that are at 3% or more. So we are seeing a pretty good shift, Eric, on that front.

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

And then from an impact perspective, Eric, 140 basis points of our base rent growth is coming from rent steps. And that's been pretty consistent for us for a long time now as the team has done an exceptional job of embedding growth into our leases. We are -- based on this momentum and we're pushing this every single day, we're hopeful to move that impact going forward.

But it is a tough mountain to climb, and it is that -- moving that impact to same-property growth north from where we are now, will take some time, but the teams are doing great work.

Operator

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

Viktor Fediv - *Scotiabank Global Banking and Markets, Research Division - Associate*

This is Victor Fediv here on Greg McGinniss. I have a question on what does a typical leasing agreement look like now and how it has changed, if at all, during the last 3 months in terms of concessions, escalators and TIs?

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

Yes. Victor, thank you for the question. I would say it certainly has shifted a bit in the landlord arena, I think, as evidenced by some of the results that you're seeing. But from a market perspective, we're not seeing capital go up just in terms of the market shifting that.

For us, specifically, quarter, it's gone up moderately because of just the mix of deals that we did this quarter, leaning more towards the anchor side. But generally speaking, as occupancies certainly rise, we feel pretty good about the quality of the portfolio, our ability to really choose the right retailers as we always intensely asset manage our portfolio and continue with what we perceive as fair market terms.

Operator

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

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

A question on bad debt. I think you kept your bad debt guidance the same. Other -- some of your peers have reduced their bad debt guidance given kind of the better expected regression here. Your is lower than others, but what are you seeing there on that front?

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

Anthony, I appreciate the question. We left our guidance range unchanged, correct. What I would say there is actually, let's get some stats out here first. 60 to 90 basis points of our credit loss reserve.

Remember, I think we all are familiar with this by now, but that's coming from 2 different line items, right? So you're losing base rent from the bankruptcy impact, but you're also recording bad debt expense unrelated to the bankruptcies, right? That's what's comprising the 60 to 90 basis points.

2/3 of that guidance is from bankruptcy impact, the balance coming from traditional bad debt and I would say we're about 30% of the way through that estimate at the midyear, so at June. Let me say this, if nothing else were to happen from this point forward in the bankruptcy arena, we'll probably end up closer to the 60 basis points out of that range.

And it does feel as if the -- as we all have talked about in the past, bankruptcies do tend to be seasonal. It does feel like more of a first half of that than the second. But we're in uncharted territories here, so we're just being a little bit careful with that range. But 90 basis points would be satisfactory to kind of capture any unforeseen kind of negative impact that could happen in the back half of the year.

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

Got it. And then maybe one more on development. It seems like the sector is doing very well here. Are you being approached by private equity firms or other sources of capital to do more development? This is a pretty strong fundamental sector, and you guys have obviously been successful in developing. So I'm curious what you're hearing there.

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

Anthony, this is Nick. I appreciate the question. So there's no doubt right now the financial markets are a challenge for most developers. We all talk about liquidity challenges, the tightest liquidity is in construction loans.

And so that is really an opportunity for us. And as I said in our prepared remarks, our capabilities, our capital and our contacts, and we mean that are all very necessary to make deals happen right now. They're really tough to make developments happen for a plethora of reasons. But that's why we feel really bullish we're going to get more than our fair share of opportunities.

And so we have phones ringing in from everyone in the business, whether it be capital interested, whether it be developers that need capital and the good news is we already have all the tools in our tool belt, and we're using those as appropriate. And so excited about, obviously, bringing SunVet online, started construction this quarter and hope to announce future deals in the future.

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

And we -- again, development has been an important part of our business model for as long as I've been at the company, and it just enhances our earnings growth with $150 million of free cash flow and we can essentially leverage that remaining leverage-neutral and invest that capital into our development, it really does move the needle with regards to enhancing our earnings growth.

Operator

And the next question comes from the line of Ronald Kamdem with Morgan Stanley.

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

Just a couple of quick ones. So just starting on the sort of the recurring or nonrecurring stuff this year versus next year. Just trying to get my arms around that. So I mean, I think it sounds like the collections of past reserves and certain noncash items is going to be the biggest sort of tough stuff to comp next year.

But from a cash basis, whether it's same-store NOI whether it's some of the occupancy gains, is that fair that should be closer to sort of your long-term targets?

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

Yes. I mean Ron, it's Mike. Just to maybe catch some of the items you're referring to. We want to -- and we try to make it very clear in the remarks. There's $9 million to $10 million of noncash FFO that won't be recurring. And I wouldn't plan on that recurring next year, driven by the straight-line rent reversals as well as the below-market acceleration.

There's another $4 million that we've guided to from a prior year collection perspective, and we're thankfully getting to the bottom of that bucket. So collectively, you're in the $14 million range of nonrecurring FFO items. And that's why we will continue to look through the core operating earnings to, again, remove the impact of those -- of that noncash component.

So that's a better reflection of what we think AFFO direction should be. And then the prior year collections will take care of themselves.

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

Got it. Makes sense. And then so I mean, I think going back to -- I think some of the comments you made about the UBP merger, presumably, you're not going to have any more of these headwinds on the same-store NOI guide. So presumably, I mean, I think '24, if you look past these noncash items, I mean, it could be a pretty strong sort of year, right? So what are sort of the like the puts and takes, right? Is it bad debt that we should be thinking about? Because everything else seems like it's going to be pretty strong.

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

Yes. I'd appreciate you mentioned it. I'm going to be a little careful, Ron, and we've talked too much about 2024. We're going to give that as we customarily do a full suite of forward-looking guidance later in the year. So I want to kind of be careful there.

But from a rent steps perspective, as we just talked about, we will continue to deliver positive impacts just from contractual rent increases. We're having a great year so far on rent spreads. In this year alone, that's an 80 basis point positive impact. I would anticipate that rent spreads continue to positively impact us going forward. Commenced occupancy, we still have room to run. There was a question earlier today about the top end. 96% on total and 93% on shops is where our eye level is. That would include the to-be merged portfolio of Urstadt Biddle, which -- which will take some more time for us to achieve those levels.

Their spot occupancy levels at about 200 basis points below ours today, and that's what we're excited about driving growth from that portfolio. Something you didn't mention is the positive contribution from redevelopments. We schedule that out in our supplement, 70 basis points to 2023 of positive NOI contribution. We've brought online key projects at The Abbot, Market Common Clarendon. These are exciting large projects that we've brought online, and we've been talking about for -- it feels like years now, and they're finally coming into fruition and through income. Those will continue to grow for us into next year as well.

And there will be the impact of bankruptcies as a negative impact this year, and we'll make an adjustment from a credit loss perspective looking into '24. But as you know, our exposure to these tenants just from a watch list perspective, is pretty limited. So that's about what I want to share today on '24 outlook, and we'll give you much more to come, both on the merger as well as on our base outlook for '24 later this year.

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

But probably important just to reiterate, I know you mentioned the opportunity in increasing the commenced occupancy in the UBP portfolio. But in case you missed the prepared remarks, Mike did say that we expect 1.5% COE accretion in 2024 from that merger.

Operator

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

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

I had -- you guys -- Regency is -- your DNA historically has always been development. You're leaning into development now when nobody else can when demand still sort of exceeds supply, if you will. So I think that bodes well for your future.

And I see that you're doing a couple of different types of development, including repurposing a former anchor box at a mall and you're doing some -- it looks like some residential. I don't believe you're doing the residential yourself at Westbard or are you doing that? Could you remind us again what's -- how you look at residential and how you try to stick to your knitting and typically would let others take the risk in noncore property types?

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

Appreciate the question, Floris. And I also appreciate the comments. You are correct. We are focused on the retail portion of development. It is our core competency. It is our competitive advantage. It is what we are really good at. And yes, there are going to be a mix of uses when we are focusing on some of the highest quality pieces of property and land.

Oftentimes, there will be demand for other types of uses. And when that is the case, we're certainly going to capitalize on that, but it is not our specialty. So we will typically partner with someone who -- that is their core competency. And it may mean that we just invest the land. It may mean that we invest a little bit of capital, but we will always bring in the expertise that is needed to ensure that we have the fulsome project and optimizing the land.

And we have examples of that, as you said, Westbard is one. We have one out in California where Nick is where we've partnered with Holland to do the residential across the street from the Grove, which is everyone is familiar with it. We've rebranded it to Bloom on Third.

So absolutely. I appreciate the question, Floris, and you are right. We are focused on the retail portion of high-quality mostly grocery-anchored suburban shopping centers.

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

And then I guess my follow-up here. I wouldn't consider California market as the state. It has a couple of different markets in there. But New York clearly is going to be your biggest market, particularly post the Urstadt Biddle merger. Is that correct?

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

Yes, if you say markets and not a state, that is correct. And again, I think it's really we like the portfolio, the composition, our geographic diversity. The fact that we have offices across the United States. And we're very focused on trade areas, as you know, not necessarily macro markets.

And we will continue to invest in the markets that we are already invested in when we have the opportunity to add high-quality shopping centers to our portfolio.

Operator

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

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

So you spent a little bit more time. It seems like with the Urstadt portfolio. Just curious, how are you thinking about, say, the 3-year same-store NOI CAGR potential compared to the existing Regency portfolio?

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

Yes. Mike, sorry, I'm going to prevent the team turning to answering the question. More to come on the close, we're not closed yet. We have spent more time with it. We're as excited as we have been since we announced the merger and since we started to look at it. None of that has changed. It's only accelerated and amplified.

As a matter of maybe disclosure guidance, we actually at this point in time, don't anticipate including it in the same-property pool. We will likely treat it as an asset acquisition. So your -- the technical question, how will impact our same-property growth isn't necessarily relevant. But we're excited to talk about the portfolio when it's time to do so.

Operator

On the line of Wes Golladay with Baird.

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

I just want to look at a high-level view of 2024. Just trying to find any potential headwinds. And more in particular, for the redevelopments, are you going to be deleasing anything of material size next year that you know of at this point?

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

Wes, I think I've talked to the headwinds we want to talk about already, and they're largely coming from the noncash area. So the $9 million to $10 million of nonrecurring noncash impacts. We've talked about the $4 million of prior year collections that also won't recur.

That's where we're going to limit our conversation today. The redevelopment impact, I mentioned previously, just again, directionality, we will continue to see that as a positive contributor going forward. And the details of that are in the supplement and you can map that out.

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

Okay. Fair enough. And then I guess, more bigger picture. There are definitely a lot of developers struggling, see where SOFR is and what their proper need for development yield is quite high. What are the -- are retailers coming to you saying, "Hey, could you just step up your pipeline? " Are you having those conversations? Are they willing to give you a higher yield? Could you take your pipeline up higher? Are you governed by maybe your free cash flow capacity? What's the outlook for maybe accelerating the development pipeline to a much higher level than it is today?

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

Sure, Wes. I appreciate the question. This is Nick. There is no question we are in direct dialogue with our partner grocers around the country. The grocers want to continue to add stores. Their business has been very good over the last several years, and they're excited about continuing to grow their top line.

And so there's no question, but there are challenges making those deals pencil and there isn't one solution to solving all those challenges. Part of it's construction cost, part of it's entitlements, Part of it is financing cost. Part of it is rent. And so our job and our capabilities allow us to stand in the middle of all of those and make sure we're pulling every single lever using every tool in our toolbox, which is why I would tell you, we're as excited as we've been in a long time about getting more than our fair share because we are one of the only companies in the country that have all of those tools, have those capabilities, have those relationships and have that knowledge.

And so we're bullish on growing the development pipeline in the cycle right now. I'm sorry, go ahead, Lisa.

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

Sorry, Nick. No, I thought you were finished. Keep going.

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

I was just going to allude to, as Mike indicated, we have plenty of capacity. And as Lisa indicated, we have free cash flow is prioritized for it, and we have a balance sheet behind that to make sure we can appropriately continue to lean into those opportunities as we put those pieces together.

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

Yes. All I was going to add is that we haven't been limited from capital, it has been a limitation on the opportunity set because we're really disciplined. And I think it's important that we maintain that discipline, and we will maintain that discipline. If it gets to the -- and Nick reminds me all the time because I do -- I like to say my $200 million to $250 million that it could be lumpy and there may be some years where it's going to be more than that, there may be some years where it's going to be a little bit less.

If we can average the $1 billion to $1.25 billion over 5 years, that's our goal. And if it gets to the point where there would be opportunity set is growing, we will certainly evaluate how we can meet that demand.

Operator

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

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

I think your retention ratio was historically around 75%, and it's trending above that now. Are you getting back to peak occupancy? Are you above that?

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

Linda, it's Alan. We are still hovering in that...

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

Peak retention rate. She just clarified your question.

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

Peak retention rate.

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

We are still -- let me answer -- let me -- let me go in reverse then. So in terms of are we back to where we think peak occupancies are, no, we believe there's still runway. We're making really good progress.

Obviously, some of the bankruptcies that we alluded to the 60 basis point impact did sort of pull us back a bit despite the great success we had on a lot of shop leasing. But there's runway there. We feel really good about, again, as I said, the pipeline of where we're going.

And I hope not only do we get back to historic highs, but we can get past those. That's certainly where we're setting our eyes.

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

The only thing I'd add on retention is, and we've talked about this, the pandemic really kind of purged some of the weaker operators. And so as we emerge from that, we've done a great job of recovering our occupancy.

We continue to do that. We continue to increase it. And we feel better today about the strength and health of our operators, and I think we ever have in the past. So it does not surprise me that the retention rate continues to be strong, and I would expect that it will continue to be -- to stay there, if not improve.

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

And then when you look out to the next year or two, how do you think about the ratio of organic versus external growth in terms of having the best opportunity sets?

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

Again, $150 million of free cash flow, we will leverage that and invest that into our development and redevelopment activity. And so that's where you're going to see our external. And as Nick said earlier, we will always be evaluating acquisition opportunities. And to the extent that we can fund it so that it is accretive to earnings.

And if the opportunity itself is neutral -- at least neutral or accretive to our quality and our future growth rate, we're going to act on them. So I think you can take our same-property NOI and the team does a great job of communicating that via our investor presentation as well as the meetings. If you take our same-property NOI model, that's the base. That's the fundamental. And then on top of that is going to be our investment activity, and that will enhance that growth.

Operator

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

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

My question relates kind of to the balance between new leasing and your ability to pay TIs. Are tenants looking for greater TIs, I thought it stepped up in the quarter. And just given the macro environment, maybe other landlords don't have as much capital available to help their tenants out. Is that helping you become a landlord of choice for certain types of tenants?

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

Michael, I appreciate the question. Look, we will invest in great retailers that we know have a great track record that we've done tremendous business with. But when you talk about sort of the uptick that we've experienced for the quarter. As I mentioned, it really is a little bit more just in terms of the mix of anchor and shops.

We -- as noted in the supplemental, you'll see the weighted average length of term is also longer. So I would bring you back to how we're thinking about net effective rents as a percent of GAAP rents where we're in the mid- to high 80% range over the last 5 quarters and for this quarter, we're at 83%.

So it's really still really in line with how we are prudently managing our capital spend, and we foresee it sticking in that similar range as we go forward.

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

And just as a follow-up related to small shop. Clearly, another big quarter with a sequential step-up of 60 basis points. Is there an artificial cap on how high small shop occupancy can get historically, it's been lower than anchor, but we just seen such strong movement lately. It sounds like you have a great pipeline there. So is there a point where we just kind of reach a moment where it may be -- it just doesn't move that much higher and are we approaching that?

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

Michael, I would say for all of our leasing agents that are listening to this call, there is no cap on our shop occupancy in the direction that we're going. But sure, we're going to still obviously have some vacancy as even when we meet those historic highs or get past those.

But again, it's historically been in the 93-ish percent range. And as I said previously, we feel pretty good about the direction that we're going with the pipeline that's in place right now.

Operator

Ladies and gentlemen, at this time, there are no further questions. I would like to turn the floor back over to Lisa Palmer for any closing comments.

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

I just want to thank you all for joining us this morning and bearing with us through the end of this earnings cycle. Have a great weekend all. Thank you.

Operator

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