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PRESENTATION

Operator

Greetings, and welcome to Regency Centers Corporation Third Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host, Laura Clark, Senior Vice President of Capital Markets. Thank you. You may begin.

Laura Elizabeth Clark - Regency Centers Corporation - SVP of Capital Markets

Good morning, and welcome to Regency's Third Quarter 2019 Earnings Conference Call. Joining me today are Hap Stein, our Chairman and CEO; Lisa Palmer, President; Mike Mas, Chief Financial Officer; Mac Chandler, Chief Investment Officer; Jim Thompson, Chief Operating Officer; and Chris Leavitt, SVP and Treasurer.

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

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

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Before turning the call over to Hap, I would like to highlight updates to our development and redevelopment pages within our supplemental disclosure. These included additional information in an effort to provide enhanced guidance around timing for initial rent commencement and stabilization as well as expectations for NOI coming offline as we position pipeline projects for a start. We hope you will find this useful. Hap?

Martin E. Stein - Regency Centers Corporation - Chairman & CEO

Thanks, Laura. Good morning, everyone. We are pleased with our leasing activity and pipeline and are experiencing healthy tenant demand across multiple categories. The retail environment continues to evolve as grocers and retailers remain focused on the importance of high-quality physical locations that provides shoppers with the best combination of convenience, of service and of experience. Regency will make the right decisions that will enable our shopping centers to remain relevant in driving places for outstanding retailers to connect with the surrounding neighborhoods and communities in the top markets across the country.

As you'll hear from Lisa, the team is intensely focused on addressing short-term headwinds, driven by what we believe is a rare confluence of atypical bankruptcies together with the timing of larger redevelopments. You should know that I share her confidence that we will soon return to core earnings and dividend growth and total returns that will be among the sector leaders through Regency's combination of strategic advantages which include our high-quality portfolio of community and neighborhood shopping centers anchored by high-performing grocers located in affluent and dense trade areas. Our experienced development and redevelopment capabilities and deep pipeline, free cash flow after capitals and dividends that funds our developments and redevelopments on an extremely favorable and cost-effective basis supported by strong balance sheet and Regency's exceptional team located in top markets across the country with a commitment to industry-leading environmental, social and governance practices.

Before turning the call over to Lisa, I'm happy to report that the executive succession plan that we announced last quarter is progressing well. Mike has seamlessly moved into role of CFO, and as you know, Lisa is fully prepared to be Regency's CEO when I become Executive Chairman on January 1. I'm extremely confident that Regency will continue to progress on our journey from good to great under Lisa and our talented team. Lisa?

Lisa Palmer - Regency Centers Corporation - President & Director

Thank you, Hap, and good morning, everyone. I want to reiterate how honored I am that you and Regency's Board of Directors have entrusted me to lead Regency. I'm excited about the opportunity and I'm looking forward to continue to -- continuing to work alongside you and with the rest of our exceptional team.

First on the call today, I will provide some comments around our 2019 guidance. 2019 same-property NOI guidance has been updated to 2%, which is taking the high end off the table. You may recall last quarter we stated that we did expect to finish the year at the low end of our previous range of 2% to 2.5%. And I will remind you that a few factors have contributed to this, to our same-property NOI growth being below our strategic objective, including the bankruptcy impacts, specifically related to Sears and K-Mart, a muted contribution from redevelopments and timing around leasing and move-outs in the first half of the year.

In spite of these headwinds, it is notable that we expect 2019 core operating earnings growth to come in at the high-end of our 3% to 4% range. Looking ahead to 2020, we will provide full year guidance with our fourth quarter earnings release. However, we want to share an initial preview of our 2020 expectations. Due to what we consider to be a unique set of circumstances, same-property NOI and core operating earnings growth in 2020 is currently expected to be flat to slightly positive. This temporary dip in growth is primarily being driven by a couple of factors.

First, an elevated impact from bankruptcies, including a 60 basis impact just from Barney's plus additional known and potential move-outs for tenants such as IPIC, dressbarn and Pier 1. And second, an estimated $4 million of NOI that we are proactively taking offline next year for in-process and planned redevelopment will be offsetting the positive contribution from projects that we're completing as well as just the general timing of starts and deliveries.

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Beyond 2020, we do have conviction that we will return to 3% NOI growth and 4%-plus earnings growth, driven by a number of key components. We believe that the elevated impact from bankruptcies, largely a result of our unique Barney's, will return to a more normalized range in 2021. While we are cognizant of the evolving retail environment and its challenges, the quality of our portfolio, our well-located properties and top-notch team give me confidence that going forward and consistent with our experience in the past, Regency will have relatively lower exposure to store rationalization.

In addition, we continue to see healthy tenant demand as evidenced by our active and full leasing pipelines, giving me further confidence in the potential for upside in rent-paying occupancy for both anchors and shops. We continue to achieve annual embedded rent steps, translating to a build in approximate 130 basis points of growth across the portfolio. Growing rents in the 7% to 8% range also translates to an additional 100 basis points of growth.

We're making great progress on our in-process redevelopment projects and we have good visibility to contributions that will support our 3% same-property growth objective in the future. In fact, over the next 5 years, our pipeline is positioned to generate approximately $45 million of incremental NOI from 8 specifically identified projects, including the Abbot, Market Common, Westwood and Serramonte, to name a few, that Mac will talk about in just a bit, and while the contribution from redevelopment will be uneven at times as we prepare for and start these more complex projects. Over time, these value-creating redevelopments will translate into a positive contribution that should average approximately 75 basis points of growth, even with these 2 years of muted contribution.

Lastly, and perhaps most importantly, our team remains keenly focused on blocking and tackling and executing our strategy to enable Regency to return to sector-leading total returns. Jim?

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

Thanks, Lisa. Same-property NOI growth for the third quarter met our expectations to 2.1%. I'm happy to report that Q3, the team executed most new shop leasing in nearly 11 quarters. We continue to have success embedding contractual rent steps into our leases as evidenced by nearly 90% of our new shop leasing include average annual steps of 2.4%. This translates into strong straight-line rent spreads of 14%.

Due to a robust pipeline, we expect the positive leasing momentum to continue. At the same time, as we discussed in first half of the year, the timing of leasing and move-outs earlier this year caused the decline in rent-paying occupancy, and in turn, lowered same-property NOI growth for '19.

In regards to tenant fallout, we are diligently monitoring watch list retailers and focused of working with potential backfills for existing and future vacancies, including our IPIC Theater and Dress Barn locations as well as tenants like Pier 1, where we have 11 locations representing 20 basis points of annual base rent. Store closures are a part of the business and our teams are discerningly backfilling these spaces, upgrading the merchandising mix and more often than not, at higher rents. More importantly, as Lisa indicated, we have every reason to believe, given the uniqueness of borrowings in our portfolio and the confluence of events, that the elevated impact in 2020 is an anomaly.

In regards to the status of Barney's location in Manhattan, the situation remains fluid. While our store in Chelsea is one of the locations that remains open for now, it's likely that we will get the space back at year-end and is a significant driver to our flat 2020 growth expectations. We are evaluating and pursuing alternative redevelopment plans and we feel good about the prospects while replacing the rent at this high-quality location although this would certainly come with downtime and capital requirements.

It's important to keep in mind that we continue to execute on proactive asset management and center repositionings across the portfolio. We remain highly focused on making astute long-term merchandising decisions, which sets up our centers for future success. Mac?

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Client Id: 77

Dan M. Chandler - Regency Centers Corporation - Executive VP & CIO

Thanks, Jim. Our development and redevelopment opportunities remain significant and we are well positioned to meet the strategic objective of starting $1.25 billion in value-add developments and redevelopments over the next 5 years. As retail real estate evolves, the nature of development and redevelopment is changing as well. Our focus in owning and operating premier shopping centers in dense infill and affluent trade areas positions us well to capitalize on increasing opportunities for horizontal and vertical mixed-use projects.

As Lisa discussed, redevelopments are a key component for Regency to achieve 3% same-property growth over the long term. But it's important to keep in mind that many of our current and near-term pipeline projects are larger in scale, more complex and often include a mix of uses. These projects simply take longer to complete and often require NOI to come offline. But once these projects stabilize, they will have substantial incremental NOI and value to our portfolio.

With that, I'd like to provide updates on some of our larger in-process and near-term redevelopment projects. Redevelopment of our former office building at Market Common in Arlington, Virginia started in the fourth quarter of 2018. As a reminder, this outdated building was vacant and purchased it and the adjacent retail. The redevelopment entails configuring the 3-story building essentially into a new 4-story mixed-use office and retail building. Construction is progressing smoothly. The building is topped out and will be weathertight by year-end. The exceptional views of the National Cathedral and the executed lease with a leading luxury fitness operator in the second floor are very appealing features for our prospective office tenants. We anticipate tenants to begin coming online in 2021 with an estimated incremental yield of nearly 9%.

The Abbot redevelopment, located in Harvard Square, started this year with the entire $1.1 million of property NOI coming offline in the first quarter. Construction is progressing nicely, particularly now the demo is complete and footings are being prepared for a ground-up building. Leasing activity is positive and we're in negotiations with several best-in-class retailers, fitness concepts and restaurants. We estimate initial occupancy to begin in 2021 at an estimated 9% incremental yield.

Moving now to some of our near-term pipeline projects. At Serramonte Center located south of San Francisco, we expect to commence on the next phases of our redevelopment by year-end. This consists of 3 components that will be staggered over the next several years. The first project is the development of a new state-of-the-art 16-screen theater as well as a 145-room hotel on a ground lease, several new outparcel restaurants and relocation of our successful Crunch fitness. The second part of the project is a renovation of the interior of the mall as well as several new exterior entrances. Both projects will increase foot traffic, supporting our productive in-line tenants, which now averaged $620 per square foot and paving the way for new retail concepts, which we look forward to announcing next year. Both projects are due to start in the next quarter. The third component is the redevelopment of the former JCPenney box, which benefits from tremendous visibility from Interstate 280. This 75,000 square foot space sets up well for a variety of junior anchors, including a specialty grocer. Groundbreaking is anticipated in 2021.

Westwood Shopping Center in Bethesda, Maryland is another large-scale redevelopment that we plan to start in early 2020. It will be converting a poorly configured Giant-acred center into a vibrant, mixed, vertical center to include retail anchored by a new Giant, 200 multifamily apartments and 100 units of assisted living and approximately 80 for-sale townhomes. Consistent with our strategy, we are partnering with best-in-class codevelopers for the nonretail components. The Phase 1 retail should open in 2022 and the Phase 2 apartments and ground floor retail shall open a few years thereafter.

These are just some of our exciting projects in our near-term pipeline but we will provide regular updates on these and other significant projects on future earnings calls and in our supplemental disclosure. Mike?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Thank you, Mac. Let me begin with some additional color around our third quarter earnings results and updated 2019 NAREIT FFO guidance. Third quarter NAREIT FFO includes a net positive $0.02 per share impact from a combination of onetime items. First, a $0.01 per share negative impact from a swap breakage charge associated with the repayment of our term loan following our August bond offering; and second, an offsetting $0.03 per share positive noncash benefit from the accelerated amortization of below-market rent, triggered by our agreement to proactively terminate a lease with JCPenney at Serramonte. Under the termination agreement, JCPenney will move out at the end of May 2020, which requires us to

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ratably amortize their below-market rent through this new termination date. Therefore, we will recognize another $5 million of below-market rent in Q4 of this year, in addition to the $5 million recognized in Q3 and yet another $8 million in 2020. Our 2019 NAREIT FFO guidance has been updated to reflect these impacts.

Items like these provide a good reminder of why we use core operating earnings as a metric to better measure performance as it eliminates certain nonrecurring and noncash items, more closely reflecting cash earnings and our ability to grow the dividend. As Lisa mentioned, we are confirming our core operating earnings growth range of 3% to 4% for 2019 and expect to finish near the top of that range.

Before wrapping up the call, let me first highlight one of the most important differentiating aspects of our business plan: our capital allocation and funding capabilities. We are fortunate to have access to many attractive funding options and now hold a positive outlook rating by both S&P and Moody's. And we are generating approximately $170 million of free cash flow annually, which fund our developments and redevelopments on a leverage-neutral basis. In addition, given the quality of our portfolio, we can be opportunistic in fortifying our 3% same-property NOI growth objective through the sale of nonstrategic, lower growth assets and deploying that capital into the acquisition of shopping centers with superior growth prospects. To that end, we acquired 2 compelling assets this quarter and we're able to take advantage of several attractive sources of capital.

In August, we issued $425 million of 10-year unsecured notes at a Regency record low interest rate of 2.95%. We used a portion of these proceeds to repay our $300 million term loan, with the balance partially funding the $212 million Pruneyard acquisition. Our disposition guidance incorporates funding the remainder of this acquisition through the sale of lower growth assets on a tax-efficient earnings and leverage-neutral basis.

In September, we funded the Circle Marina acquisition, located in Long Beach California through a combination of secured debt and operating partnership units, which is yet another funding source in our playbook. And lastly, we executed on our ATM program in September, selling approximately $130 million in gross proceeds on a forward basis.

As Mac discussed, our development and redevelopment pipeline continues to grow and we are excited about the near-term value-add opportunities. We expect development and redevelopment spend to exceed our leverage free cash flow in 2020 and proceeds from the forward ATM will be used to fund a portion of that spend. This is a compelling funding source when priced correctly as it maintains our balance sheet strength and -- when compared to dilutive property sales.

Our flexible funding strategy is one of the many factors that contribute to Regency being well positioned to meet our strategic objectives over the long term, including starting $1.25 billion in value-add developments and redevelopments over the next 5 years, averaging same-property NOI growth of 3%, core earnings growth of 4%-plus and with dividend growth, total returns exceeding 8%.

I'll turn the call back to Hap for closing remarks.

Martin E. Stein - Regency Centers Corporation - Chairman & CEO

Thank you, Mike. I'd like to take this opportunity on my last earnings call to thank not only all of the amazing Regency team members, team members that I have worked with over the last 40 years, but also to thank all of the talented people in the investment community that I have interacted with throughout my career. This includes many of you who are on the phone with us today and with whom I will be able to meet with at the upcoming NAREIT. Our constructive dialogues have truly made a contribution to Regency's success. It has been my pleasure to work with all -- you all and an awesome honor to lead this special company to where it is today. I'm looking forward to stepping into my new role as Executive Chairman, supporting Lisa and our exceptional team as they successfully achieve Regency's goals.

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

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QUESTIONS AND ANSWERS

Operator

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

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

This is Greg on with Nick. Just one question for me today. You seem committed to achieving this 3% same-store NOI growth over the long term. But I'm wondering what the expected timing is on that goal or if I'm just misunderstanding the growth number? Because if we assume 2% same-store growth in 2018 and 2019, then I guess 0 to low single in 2020, does that mean we should be assuming nearly 5% growth from there out?

Lisa Palmer - Regency Centers Corporation - President & Director

Greg, it's Lisa. Just to answer your question, we will be giving full guidance for 2020, all the components of it on our fourth quarter earnings call. So at this time, we're not giving 2020 guidance. We're certainly not going to dip our toes into 2021 or 2022 or 2023. But what I can tell you is just reiterate what I said on the call, that we do have confidence that we will return to achieving our strategic objectives and do that over the long term.

We have a lot of visibility to great value creating projects in our development pipeline, some of that are already in progress. And those will -- that value will be harvested. The time lines, they take a little bit of time. Interestingly, we were talking about this earlier today, even just first retenanting some of our anchor boxes. The value creation is also highly correlated to the amount of time that it's taking to complete these projects.

So we love our portfolio, we love our development platform, we love our balance sheet and I love our team. They may not all love me but -- and we're really excited about the future. We think we're really well positioned to continue to be a sector-leading owner, operator, developer of shopping centers.

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

Okay. But just to clarify. So the 3% growth is kind of an average expected per year. That's not necessarily like over a 5-year period, you'll be achieving that 3% growth?

Lisa Palmer - Regency Centers Corporation - President & Director

It's over the long term. It is an average of 3% over the long term. I don't know how -- that I have the exact number with me. Laura may write it down for me but I believe that our 5-year average right now is 3.4% and we had several years that we're north of 4%. So I do believe it's achievable.

Operator

Our next question comes from Christine McElroy with Citi.

Christine Mary McElroy Tulloch - Citigroup Inc, Research Division - Director & Senior Analyst

Just following up on that flat growth expectation for 2020. Is redevelopment expected to be a neutral or a negative contribution? And appreciate the detail on each kind of the larger projects, but wondering if you could update us on, for FFO monitoring purposes, sort of those downtime impact expectations for Westwood, Serramonte, Costa Verde, as that space -- any space comes offline over the next 2 years?

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Michael Mas - Regency Centers Corporation - Executive VP & CFO

Christy, it's Mike. With respect to the specific question around 2020 and the impact for redevelopments, much more to come next quarter when we put out details. We're still refining our plan but we did allude to $4 million of NOI coming offline at 2 specific projects next year and Mac spent some time talking through those. I would also point to you to our new disclosure. I think it's Page 19 or so in our supplement. The team has done a great job of trying to provide a little bit more visibility into the impacts of downtime, and more importantly, timing around -- a little bit to Greg's question, when NOI will start to return for these projects that we're working through and that Mac took some time to step through.

Going forward, we will continue to be very descriptive on these projects on these quarterly calls and in between with meetings. And we'll be very, very sure to help everyone understand that the -- it's about the ins and the outs. I would say this, we've averaged anywhere from 20 to 130 basis points of positive contributions. Obviously, 2019 has been muted and I would say that 2020, at this point in time, we anticipate to look a lot like 2019.

Christine Mary McElroy Tulloch - Citigroup Inc, Research Division - Director & Senior Analyst

Okay. And then just in terms of the forward equity raise. You mentioned that a portion of that will go to redevelopment spend. Is the balance going to acquisitions? And how do you sort of think about kind of the source of capital in terms of dispositions versus the ATM issuance? Are you kind of a seller of additional equity here? Or has it all been kind of prefunded for 2020?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Sure. So it's a good question and fair. It all starts with free cash flow. And as we've talked about, about $170 million, we're generating free cash flow given our low payout ratio. Importantly, that's after CapEx, that's after dividend payments. And then we look into our capital plan for next year and again, this pipeline that we're building of active developments and redevelopments is leading us to a new create a little bit more capital than that leverage-neutral free cash flow we'll provide.

So we look at our portfolio and we assess whether we need to activate any pruning beyond our typical 1% per year or so. And when we looked at the price, NAV is an art, not a science. We like this price with respect to our capital plan. I think if you think about consensus NAV and maybe what that implied cap rate may be. And you think about our use of proceeds into developments and redevelopments averaging about 7% returns, we like that trade and that's how we think about managing our capital plan. Importantly, we are committed to maintaining our balance sheet. We closed the quarter at 5.5x. We like our ratings, we like the positive outlooks that we're on with both Moody's and S&P. And we will work to preserve the strength of that balance sheet as well.

Operator

Our next question comes from Rich Hill with Morgan Stanley.

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

Lisa, maybe first for you. Just strategically, would you change anything with your redevelopments given what you know now about this confluence of bankruptcies?

Lisa Palmer - Regency Centers Corporation - President & Director

Absolutely not. These are really great projects and now that we have some enhanced disclosure, hopefully that you can see that as well and you can see why we're excited about some of these. And I think Mac actually talking about them on the call and some of you have even had an opportunity and we'd even touched on some others. Some of you have had an opportunity to visit, some of you -- even others like Town & Country

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were going to have an opportunity in Atlanta. So there's a lot of really exciting projects and this is -- it's a marathon, it's not a sprint, and we're focused on long-term value creation for our shareholders.

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

Got it. That's helpful and very reassuring. I do have a follow-up question. I know you're not looking to give guidance right now and I think what a lot of us are trying to get out on the call is the mix between maybe how much the redevelopment versus the confluence of bankruptcies is weighing on the flat growth. Do you have any sense as to -- is it 75% of bankruptcies and 25% the redevelopment? How should we think about that next?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

More -- you're going to hear this a lot potentially today, Rich. More to come, obviously. But let's -- we can talk about some of the facts that are out there and you should all be aware of.

From a bankruptcy perspective, since 2015, we've averaged between 10 and 60 basis points of impact. If you just think about Barney's and IPIC, just those unique bankruptcies that we're up against next year, that's 80 basis points alone in 2 tenants. So that's far exceeding what we would call regular lay business. So I think keep that in mind as you think through the impacts for 2020. I think the redevelopment contribution is what it is, it's another year of, given the ins and outs of NOI, another year of muted contribution, which will look a lot like 2019.

Operator

Our next question comes from Craig Schmidt with Bank of America.

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

Just thinking about the Small Shops, roughly on average, how many months does it take you to go from a closed store to one that is open and paying rent?

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

Craig, I think we're probably in the -- I'm going to say 8-month range. But I would say from lease execution to [RCV] is probably closer to 4.

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

Okay, that's helpful. And then, will you be doing any lease modifications in 2020?

Lisa Palmer - Regency Centers Corporation - President & Director

In what sense, Craig?

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

Where you -- fearing the store closing, you may negotiate lower rents to keep them in place.

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Lisa Palmer - Regency Centers Corporation - President & Director

Oh, just like rent reduction. Rent releases.

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

We obviously take every situation on its own, every deal stands on its own. We're appropriate and I'd suggest one of the reasons you saw a slight tick downturn on the renewal rates was effectively we had -- in this particular quarter, we had a couple of deals that I would call standing still retailers. Keeping them placed until we can get them backfilled. And you may take a little bit of a hit on a short-term basis to keep the space filled while you market to space. So in general, I think we've been pretty tough on rent reduction. Generally, we want our space back if the tenant doesn't want to play by the rules, if you will. And we have found good success in reletting our space when we get it back.

Martin E. Stein - Regency Centers Corporation - Chairman & CEO

And that's the exception rather than the rule.

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

That is exception. If it happens, it's generally very short term in nature.

Operator

Our next question comes from Shivani Sood with Deutsche Bank.

Shivani A. Sood - Deutsche Bank AG, Research Division - Research Associate

It's switching to the private market side. We've heard some of your peers that the investment market, especially for the high-quality assets you're looking for, is exceptionally tight right now. So if you could just comment on what you think is differentiating Regency from the peer set in the bidding process just given the higher volumes and the more accretive cap rates we're seeing year-to-date versus the initial guidance.

Dan M. Chandler - Regency Centers Corporation - Executive VP & CIO

This is Mac. Thanks for your question. I do agree with that observation that, in fact, the market is very tight. There are very few of qualities of the type of quality that we're looking for, we have a very high bar. And you're right, we have been successful buying properties off market, not just this year but over the last several years, we've got a track record for that. And I'll just use the Pruneyard as an example. That was off market. The seller came directly to us based on our reputation and our ability to close quickly and to get our arms wrapped around it. I think an advantage is our 22 markets. We're in the market and we know these properties very well. Circle Marina is another example where we own 3 centers within 0.5 mile and we've driven past this center for many, many years, it's been on our watch list and we simply approached the owner for many years and we finally came to terms with him. So it really gives us an advantage being out in the markets and having a reputation for being able to close quickly and to settle at a price that was agreeable.

Shivani A. Sood - Deutsche Bank AG, Research Division - Research Associate

Thanks for that color. And then understanding that the residential isn't a huge part of the redevelopment at Town & Country Center. But have the recent changes due to the rent laws in California changed how you're underwriting that or thinking about that project?

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Dan M. Chandler - Regency Centers Corporation - Executive VP & CIO

That particular one is interesting in the sense that we have a 99-year ground lease with an apartment developer who's going to develop that. And so they'll construct it, they'll own it. We have increases in that rent. So they have no hesitation on moving forward with the project. We've been working with them for about a year now. We're into the city and we see no reason why that transaction would not close and they would commence rent as agreed upon. So we keep an eye on it but certainly our partner, and partner in this case being the ground lessee, is -- doesn't have any concerns.

Operator

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

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

Just going back to the commentary on the investment activity. Obviously, recognizing somewhat of a tight market, but you've also been pretty successful here. You mentioned the market strategy and that's driving some additional deal flows. So beyond what you've closed already and what you outlined on the disposition front, you have the $200 million closed. Your guidance is $300 million. Do you have additional stuff either on the market for sale beyond that $300 million that we should be thinking about? And on the buy, is there anything that's really kind of active in the pipeline that you're excited about that could maybe come to fruition here or early next year?

Dan M. Chandler - Regency Centers Corporation - Executive VP & CIO

Sure, Jeremy. This is Mac. One of the advantages of buying a center like the Pruneyard is it's give us an opportunity to exchange a property that we sell that hasn't been a tax gain. And so we do have a couple of properties that we are looking to sell where we would exchange that gain and park it into the Pruneyard. However, we don't feel that we're under any pressure to close that sale. But we do have a couple of transactions that are out there. You're right, that makes up about the remaining $100 million, and if it works, it's great. But like I said, we're under no pressure to consummate that sell. We don't usually get in the exact transaction, just details to it.

On the buy side, we're always in the market. We're always looking for properties. That's how we've been successful in the past. And if opportunities that are compelling and meet our high bar for quality and income growth come our way, we'll address those as they come.

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

All right. So doesn't sound like necessarily an M&A here. And then lease, thanks for the initial color on 2020 on the same-store NOI expectations. As we take that into account, the details you outlined, the impact from Barney's, just thinking about managing expectations here, should we be thinking about earnings growth around a similar level to that? Is there anything positive or negative that could swing it higher or lower from there?

Lisa Palmer - Regency Centers Corporation - President & Director

Again, we'll give a lot more detailed guidance in a quarter. But as I said in the prepared remarks, that we really -- we expect those to be in a similar range.

Operator

Our next question comes from Samir Khanal with Evercore.

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

I guess on Barney's, I'm just trying to get a little bit more color, if you have that. If you were to get the space back, I mean how long do you think you get sort of proper entitlements on that and then -- and get a tenant back in? And also, how should we think about the rent on that box? I know it's about $80 a foot there. I mean, yes, how should we think about the economics?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Let me start and I'll kick it to Jim as he may provide a little bit more color on how he's thinking about the space. But Samir, as we said, we're effectively planning for Barney's to be down next year. So much more to come as we roll out our guidance for 2020 and then we'll continue to report on this project as we have and enhance our disclosure on the other projects. We'll treat Barney's based on a similar range, give as much visibility as we can to the extent of the downtime, the extent of the capital and when we anticipate that rent coming back on board. But I'll let Jim speak to what we have been doing to this point, what our thoughts might be.

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

Yes. Thanks, Mike. We really like the real estate and believe we'll be able to replace that revenue. Our team is actively engaged, as we speak, in evaluating the alternative scenarios, and obviously, the different uses that may be available to us. But as Mike said, much more to come but we are diligently pursuing all of the avenues at this point.

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

Okay. And I guess a follow-up, maybe a big picture question, Lisa. It sounds like you're a little -- you're being a little bit more active on projects sort of late in the cycle, whether it's the redevelopments or even at the development side, maybe taking space offline even at Westwood. I guess, how are you balancing that decision to do more projects with a potential sort of a -- the overhang of a risk coming from an economic slowdown, given that there's a lot of economic uncertainty out there?

Lisa Palmer - Regency Centers Corporation - President & Director

Gosh, if I knew when the next downturn was going to be, I might not be sitting at this table. I might be somewhere else. These projects are really generational projects and it's -- especially the redevelopments like real estate that we already own in really high barrier markets, infill neighborhoods and even in what was obviously, right, the second worst recession in our country. In fact, in 2009, these types -- this quality real estate that we own still performed really well. So we don't have our heads in the sand. We know, we realize that there's a lot of clouds out there in terms of economic uncertainty. But these projects, I believe, will even perform well and withstand what the economic cycle that we know are coming.

Martin E. Stein - Regency Centers Corporation - Chairman & CEO

And they will go through the cycles.

Lisa Palmer - Regency Centers Corporation - President & Director

And they will go through the cycles.

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Operator

Our next question comes from Wes Golladay with RBC Capital Markets.

Wesley Keith Golladay - RBC Capital Markets, Research Division - VP & Equity Research Analyst

Can you give us an update on your tenant watch list? I mean, from last quarter, it sounds like it was few percent but now it sounds like you're cycling through a few of those tenants. So did that come down? And what is your remaining department store exposure?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Wes, it's Mike. From a watch list perspective, there's really no change quarter-over-quarter from what we talked about in the past. Tenants, as you had mentioned, have come off the list. So there's no longer the impacts of Sears, et cetera, and Barney's has now moved into a different class. But as we look forward, obviously, we're eyes around tenants like Pier 1 and others. We're taking care of JCPenney, as we mentioned, with the termination agreement. But I would say it's essentially pretty neutral. I'll go back to the bankruptcy history that we've absorbed into our NOI figures since 2015. It's been in the 10 to 60 basis point range for tenants that are outside of this Barney's/IPIC situation that we're currently looking at.

Wesley Keith Golladay - RBC Capital Markets, Research Division - VP & Equity Research Analyst

But let me clarify, were they on the list of the Barney's, the JCPenneys, the Pier 1s and the...

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Yes, absolutely.

Wesley Keith Golladay - RBC Capital Markets, Research Division - VP & Equity Research Analyst

Okay. But does that mean someone's back on them now?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

No. I mean we're generally in that same range, I think historically, it's been -- our watch list, maybe we'll walk through that, we think about it in 3 categories. We obviously are financial from a bankruptcy risk perspective and then when we look at store closure risk and that's where you can have -- we want our teams to be aware of the change that are looking to rationalize their fleets. Generally speaking, Regency does well in that regard. We typically own the centers that perform in the upper half, upper quartile of those change. In the rationalization scenario, we don't generally lose as much space as you otherwise would think.

And then lastly, we like to improve operators and retailers who are -- may not be in financial distress or actively shrinking their fleet sizes but maybe came through some operational changes that we just want to be aware of. You put all that together, it's probably a tick down because of the fact that we moved Sears through the list and we're going to move Barney's through the list but it's about the same, Wes.

Wesley Keith Golladay - RBC Capital Markets, Research Division - VP & Equity Research Analyst

Okay. And then what about the remaining department store exposures?

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Michael Mas - Regency Centers Corporation - Executive VP & CFO

What is that...

Martin E. Stein - Regency Centers Corporation - Chairman & CEO

It's mainly Macy's in a very, very low rent, Serramonte.

Operator

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

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

What was the rationale for doing a forward equity offering versus just issuing equity through the ATM today?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Vince, it's Mike. We've used forward sales before so we have a track record of that tool. We like that opportunity for us to best match on our needs. So as we look to our capital plan for 2020 and we pointed this towards this building redevelopment pipeline, that's in effect while we use the forward.

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

And is there more fees than just doing a normal offering? Just from my perception, I'm trying to get a sense of -- I get the match funding. It helps a little bit with, I guess, earnings dilution in the near term. But are there more fees that accompany it forward?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

On the extreme margin is just a touch more fees but it is negligible.

Lisa Palmer - Regency Centers Corporation - President & Director

Economically, the forward is better or else we wouldn't choose to do it.

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

Got it. And just for -- and you can do this in multiple phases over the next 12 months? Or is it a 1/1 period you will get the full equity raise or one date, rather?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

It's at our discretion, Vince. And we'll be very clear either in the guidance that we'll roll out next quarter or on subsequent calls on our timing as we have in the past when we've had outstanding forward issuances.

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

Got it. That's really helpful. And one more, just shifting gears a little bit. Could you talk a little bit about the trends you're seeing in the Small Shops segment of your portfolio? Specifically, kind of I'm curious which retailers or merchandise categories are kind of moving in and out of those -- of the shop space in general?

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

Yes, Vince. This is Jim. As evidenced, I think, by the leasing progress we've made this year, I think you can see we feel the market is still strong. Our pipeline is robust. The categories, it's really the same folks that we've been doing business with, the off price, the fitness, beauty, medical, restaurants, obviously. But it's really -- we're seeing good activity across all our regions and activity remains strong. I think our fundamentals, we feel real good about our fundamentals.

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

So on the fallout side then just because lease occupancies have been flat throughout the year and within shops. Like where -- has fallout been kind of as a result of bankruptcies? Are you seeing any weakness with mom-and-pop tenants? Just curious if you can elaborate a little bit more on where you're seeing the kind of dropout of shop tenants. Because it does sound -- does seem like the demand side is still there but you and others across the sector have had flat to negative shop occupancy changes this year.

Lisa Palmer - Regency Centers Corporation - President & Director

I'm going to lead Jim to the water. I want to remind everyone that our shop percent lease is -- it's at a pretty healthy level, I think it's 91.5%.

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

91.6%, right.

Lisa Palmer - Regency Centers Corporation - President & Director

91.6%. So can we increase that and add occupancy? I think we can. But I also believe that of those that have reported, I think we might be the high watermark. So that's just part of the business.

And we recently did a market showcase in Raleigh and I reminded people that were there that when we're buying a property and we do underwriting and we underwrite renewal rate, we essentially say 1 out of every 4 tenants are going to fail. So that's our business and the way that we manage that is very proactively. As Jim even alluded to earlier in terms of when people are coming up for renewals, the ones that are kind of standing still, we're really evaluating if this is a tenant that we think is going to be able to survive and not just survive but thrive and really drive traffic and energy to our centers. So I think that 91.5% and while I do believe that we can increase occupancy, if we kept it flat, I think that, that would help meet our expectations.

Operator

(Operator Instructions) Our next question comes from Michael Mueller from JPMorgan.

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Michael William Mueller - JP Morgan Chase & Co, Research Division - Senior Analyst

In terms of the flat same-store NOI outlook for next year, can you give us a sense as to how the timing of some of the bankruptcy is expected to play out? Because obviously, the later that it hits in the year, the more it's going to bleed over into 2021 as well?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Mike, more to come on timing of all of our expectations supporting what I would clarify to be flat to slightly positive 2020 expectation. However, we all know Barney's is in bankruptcy. We all know IPIC in bankruptcy. So it would be safe to assume that we're taking the full brunt of that in 2020.

Operator

Our next question comes from Linda Tsai with Jefferies (sic) [Barclays].

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

Taking into account your low payout ratio, especially compared to your peers, but acknowledging that you're using free cash for developments and redevelopments, does this reduce the probability that you'd raise your dividend more aggressively, maybe during this period where same store is below your longer-term growth target?

Lisa Palmer - Regency Centers Corporation - President & Director

Before Mike answers, let me remind you that free cash flow is after dividends.

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Correct. And Linda, we're committed to increasing our dividend annually. We've made that statement very clear. I think we reinstituted the annual growth of around 2014 when we made the pivot from portfolio enhancement. And then what we've also said is we'll be given that low payout ratio, that our dividend growth rate would approximate our earnings growth rate. I would say that flat to slightly positive should translate to a similar amount of dividend growth, although we do have the flexibility and the capacity to be flexible there. So more to come but we do anticipate that maintaining that commitment to annual dividend increases.

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

And then just broadly speaking, I know you're not giving guidance but what's the general view in terms of the balance between acquisitions and dispositions for next year?

Michael Mas - Regency Centers Corporation - Executive VP & CFO

Like I said, I'll repeat, we like our portfolio. We are -- at the same time, we are committed to continued recycling of a small amount. We think that, that pays dividends going forward in our exposure to at-risk tenants and in our ability to meet our long-term strategic objectives of growing NOI at 3% or better. So more to come but I wouldn't be surprised to see guidance that is in the approximation of what we've done historically, which has been in that 1% range.

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Operator

(Operator Instructions) There are no further questions at this time. At this point, I'd like to turn the call back to Hap Stein for closing comments.

Martin E. Stein - Regency Centers Corporation - Chairman & CEO

Yes. Once again, I want to thank all my friends in the investment community. It has been a real treat working with you and I look forward to seeing a number of you at the upcoming NAREIT. Everybody, have a great day. Enjoy Halloween with your family and weekend beyond that. Thank you very much.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.

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