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PRESENTATION

Operator

Greetings. Welcome to Regency Centers Corporation's Second Quarter 2019 Earnings Call. (Operator Instructions) Please note this conference is being recorded. I will now turn the conference over to Laura Clark. Ms. Clark, you may now begin.

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

Good morning, and welcome to Regency's Second Quarter 2019 Earnings Conference Call. Joining me today are Hap Stein, our Chairman and CEO; Lisa Palmer, our President and CFO; Mac Chandler, EVP of Investments; Jim Thompson, EVP of Operations; Mike Mas, Managing Director of Finance; and Chris Leavitt, SVP and Treasurer.

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

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

Before turning the call over to Hap, I wanted to mention our upcoming Raleigh Market Showcase event in early October. This event will feature our high-quality properties including recent developments, redevelopment and acquisitions as well as our local market team. We hope that many of you will be able to join us, and I'm happy to provide more details to those of you who would like to attend.

Hap?

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

Thanks, Laura. Good morning, everyone. Before discussing our results and outlook for the remainder of the year and for the future, I'd like to highlight that executive changes we announced yesterday. I'm extremely excited that Lisa Palmer will become President and Chief Executive Officer, effective January 1, 2020, and at that time, I'll transition to Executive Chairman. On August 12, Mike Mas will become Executive Vice President and Chief Financial Officer. In addition, Jim Thompson and Mac Chandler will be appointed Chief Operating Officer and Chief Investment Officer to better recognize their roles within the company. This succession is a result of a well-considered plan that Regency has been crafting for the last several years, and I have no hesitation that this transition will be seamless.

I'm deeply gratified to work with the best professionals in the business. Regency's people are the cornerstone of the company and our values and they have worked together to build a truly wonderful company. Lisa is the embodiment of Regency's culture and success. Over the last several years, Lisa and I have been partners in the direction of Regency, making decisions together every step of the way through Regency's vision, strategy and consistent execution. And it's through this partnership, I know that our understanding of our business, our ability to execute on our strategy, our experience in the capital markets as well as our devotion to our special culture position her to continue to build on Regency's past success.

And with the support of this executive team and of our people, we'll continue our focus on being the preeminent national owner, operator and developer of shopping centers.

Now to the quarter. Lisa, Jim, Mac and Mike will discuss in more detail how we're operating in, what in our view is, a reasonably favorable environment which is reflected in the underlying fundamentals. This includes a portfolio that is over 95% leased, net growth in the high single digits and bad debt at prior year's healthy levels.

That said, the delayed timing of new leasing in the first half of the year as well as not exceeding our assumptions for moveouts resulted in a decline in rent paying occupancy. This has impacted the second quarter as well as the back half of the year. As a result, we now expect to finish towards the lower end of our same property NOI growth range, which doesn't meet our high expectations.

However, in spite of moderately lower NOI growth in 2019, this year, we continue to generate substantial free cash flow translating into meaningful growth in core earnings and AFFO. Most important of all, I'm confident in our unequaled combination of strategic advantages including the quality of our portfolio, our development capabilities, the strength of our balance sheet and our high -- highly engaged team has and will continue to position Regency to be a leader in the shopping center sector and generate total returns of 8% to 10%.

Now I'll turn the call over to Regency's future Chief Executive Officer, Lisa Palmer.

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

Thank you, Hap, and good morning, everyone. I want to thank Hap and the board for this tremendous opportunity. We're truly fortunate to have had such an impactful leader of our company and for our employees.

Hap and our senior leadership team with the guidance of an exceptional Board have positioned the company for a seamless transition. As Hap said, we've worked so closely together along with Mike, Jim and Mac, and our entire team is ready and excited to continue to build on Regency's past success and move the company forward as we realize our vision and achieve our key objectives.

Moving to the quarter. I'd like to highlight a few things as our team continued to execute on our strategy. Our high quality portfolio remains at a healthy 95% leased and our leasing pipeline is deep. We started exciting new development and redevelopment projects, including Culver City market in the Abbot, which Mac will talk about in just a little bit. We further enhanced the quality of our portfolio through the acquisition of a premier shopping center in Silicon Valley, and with our balance sheet strength, we are able to fund the acquisition on an essentially nondilutive leverage-neutral basis.

Our conservative balance sheet is approximately at $170 million of free cash flow, which is after capitals and dividends, continue to provide substantial financial flexibility and access to capital through future cycles. We recently published our annual Corporate Responsibility Report which highlights our commitment to our people, our communities, our best-in-class ethics and corporate governance and environmental stewardship. And importantly, we now expect core operating earnings to grow 3% to 4% for the year and AFFO by over 6%.

Our portfolio continues to benefit from the successful retailers that are expanding their physical presence. Our high-volume grocers are driving substantial foot traffic as brick-and-mortar locations remain a critical component to their strategy and at the center of their success. These best-in-class grocers are attracting desirable shop retailers and restaurants as they continue to commit resources to customer service, the store experience, value and technology initiatives.

And in spite of the well-publicized headwinds from the retail sector, we remain confident that our high-quality portfolio will outperform over the long term and meet our strategic objective to average same property NOI growth of 3%, which is supported by organic growth as well as positive contributions from our attractive pipeline of redevelopment opportunities. The continued execution of our proven strategy has positioned Regency extremely well to achieve these objectives. Mac? Sorry. I'm going hand it over to Jim.

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

Thanks, Lisa. Same property NOI growth in the first half of the year of 2.1% was supported by base rent growth, of 2.5%. The quality, appearance and location of our properties as well as our Fresh Look merchandising continued to elicit good demand. This is evidenced by new and renewal leasing volume in the first half of this year which exceeded the first half in 2018.

Moveouts and bad debt that remained near prior year levels are both indicative of a healthy tenant base. We are astutely managing our leasing capitals and achieving high single-digit leasing spreads and executing on embedded rent increases, both of which are contributing to straight-line rent growth of 16% for the trailing 4 quarters. That said, relevant retailers as well as Regency continue to be diligent and deliberate in lease negotiations as well as site and merchandising selection, which contributed to delays and leased timing in the first half of the year.

In addition, timing associated with permitting and the construction process in markets where the retail environment is striving continue to cause delays. We're also executing on our proactive asset management to fortify our merchandising mix as well as our same property NOI growth over the long term. I'd like to share a few notable examples that occurred this quarter.

At our Riverside Square Center in Chicago, we proactively captured a space from a regional gym operator and upgraded that merchandising with Blink Fitness, a premium quality, value-based fitness concept that is a subsidiary of Equinox. Blink took a total of 15,000 square feet at a rent that was over 20% accretive to the former operator.

Also in Sheridan Plaza in South Florida, we declined Bed Bath & Beyond's request to renew at a reduced rent. We captured that space and are executing a new lease with Burlington at 130% rent spread. These examples as well as many others demonstrate that we are being thoughtful and making the right long-term decisions even when resulting in downtime.

In regards to potential future bankruptcy filings and store rationalization, we are diligently monitoring watch list retailers. Our local teams have been actively marketing many of these spaces, and given the desirability of our real estate, there are a number of backfill prospects we're working with. Should we get these spaces back, we expect to upgrade the merchandising often at higher rents.

The recent news around the potential for Barney's to file a bankruptcy was new information and there's much uncertainty around the eventual outcome. Importantly, despite their corporate struggles, we feel good about the long-term prospects of this unique location in Chelsea.

All that said, while the bankruptcies and store closures continue to dominate the headlines, expanding categories like off-price, fitness, restaurants, entertainment and grocery users are making up for these closures and presenting merchandising upgrades and redevelopment opportunities, leaving us feeling good about the state of our business. Mac?

Dan M. Chandler - *Regency Centers Corporation - EVP of Investments*

Thanks, Jim. Our capital allocation strategy, which clearly differentiates Regency's business model, starts with $170 million of annual free cash flow after capitals and dividends. This enables us to fully self-fund our development and redevelopment objective to start and deliver $1.25 billion over 5 years on an extremely favorable and cost-effective basis.

In the second quarter, we started a terrific ground-up development in Culver City, arguably the most sought-after market in Southern California. This dense infill project will be anchored by urban space, one of the leading market hall operators as well as several local restaurants and retailers. The trade area of Culver marketplace is extremely compelling, with more than 275,000 people with average household incomes of over $125,000.

We also started 4 redevelopments this quarter, the largest being our mixed use project in Cambridge, known as The Abbott. We're extremely excited about this exceptional opportunity and its value creation. The Abbott is the most prominent location in Harvard Square, benefits from tremendous foot traffic and world-class demographics.

Our in-process developments and redevelopments are performing well. The projects are nearly 90% leased and committed with the expected yields that remain comfortably well above cap rates for comparable Class A properties. Our in-process redevelopments as well as select future redevelopment opportunities are on track to contribute over $40 million of incremental NOI. One such example is our Westwood Shopping Center in Bethesda. Now that we have secured our entitlements, we continue to advance our plans and look forward to discussing more details later this year.

As we've previously communicated, a key component of our investment strategy is portfolio quality enhancement through the acquisition of premier assets. On July 1, we did just this with our acquisition of our Pruneyard, a 258, 000 square foot center in the heart of Silicon Valley. This iconic center anchored by Trader Joe’s and Marshalls sits in close proximity to the West Valley’s most affluent neighborhoods and technology employers and it's merchandise to superb retailers and restaurants. Adjacent to the Pruneyard, are three office towers and a hotel, which were not part of the transaction, but do contribute to our significant foot traffic. The Pruneyard is expected to generate a 3.5% NOI CAGR and an IRR in excess of 6.5%, and is yet another example of the strategic acquisition that serves to fortify our NOI growth. Consistent with our capital allocation strategy, we plan to fund the transaction with lower growth dispositions combined with debt in the unsecured market, both of which are reflected in our guidance upgrades. Mike?

Michael Mas - *Regency Centers Corporation - MD of Finance*

Thank you, Mac. I'd like to provide some color around our reaffirmed same property NOI growth and updated earnings guidance. First, we are maintaining our initial 2019 same property NOI growth guidance range of 2% to 2.5%, which is centered around varying degrees of new, renewal and moveout activity. As we've discussed this morning, net leasing activity that occurred over the first half of the year, and more importantly, the timing of that activity, has led to our current expectation for same property NOI growth to end the year closer to the lower end of this range. And for added clarity, please also note that our reaffirmed range does not incorporate any potential loss to rent from Barney's as that situation remains very fluid. And as Jim mentioned, there is much uncertainty around the eventual outcome. Our annual rent exposure to Barney's is approximately $4.9 million, meaning same property NOI growth could be impacted by up to a maximum of 25 basis points this year.

As we have previously communicated coming into this year, our 2019 same property NOI growth range falls below our 3% strategic objective primarily due to the long-awaited Sears bankruptcy together with the muted contribution from redevelopment deliveries. However, as we consider the high quality of our portfolio and look forward to the visible redevelopment opportunities in our pipeline, we remain confident in our ability to achieve our objective to average same property growth of 3% over the next 5 years.

Turning to FFO. The Barney's credit situation resulted in an unexpected noncash expense of approximately $0.02 per share from the reserve of the tenant's straight line rent receivable. This noncash charge will be offset by a number of other positive impacts for the full year, including more favorable G&A and a slight push in timing of our planned disposition, which in total allowed us to tighten our FFO range while keeping the midpoint constant at $3.83 per share.

As a reminder, we like to use core operating earnings as a better metric to measure performance for Regency as it eliminates certain nonrecurring and noncash items and more closely reflects cash earnings and our ability to grow the dividend. In the second quarter, we grew core operating earnings by 4.6% after adjusting for the lease accounting change. And given the positive impacts of lower G&A and new disposition timing, we now expect to grow core operating earnings per share for the full year by 3% to 4%. You may recall that this range was wider with the floor of 2% when we initially offered guidance.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Christine McElroy Tulloch from Citi.

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

Just first, Michael and Katie and I just wanted to offer our congratulations to Lisa and the rest of the team. Obviously, part of the longer-term plan but well deserved. And Hap, we'll definitely miss you in the fray but we know you'll still be around.

Just to follow up, Mike, on some of the Barney's stuff. I know it's not in the same-store range yet for '19, but does this potentially derail -- I know it's only 30 basis points, but you have a plan to sort of get back to that 3% same-store NOI growth rate by 2020. Does that -- does this and sort of the timing issues in 2019 potentially impact that? And with regard to that specific store, it's not a normal holding for you. I know the focus for them has been more on their Midtown store rent, but how would you feel about having to re-lease that space versus where market is today?

Michael Mas - *Regency Centers Corporation - MD of Finance*

Thank you, Christy. I appreciate the question. I'll leave the re-tenanting to Jim, but let me first address your question around our NOI growth. And I think what you're asking, the future profile, I'm not going to give 2020 guidance at this point in time. We're just not prepared for that. But I would say that -- listen, Barney's, Sears, Toys before that, this is part of the business, always have been. We're going to have the retailers who fail and we'll continue to have retailers that fail. This is a large rent for us and a 0.25 point impact to this year and under a lot of assumptions, maybe 0.25 point next year as well. That being said, it's just 2 to -- it's a 2.25%, 2.5% business organically, again, assuming that we're going to have tenant fallout in that. And then we -- the real reason we're at these levels this year is the lack of and the immediate contribution from redevelopment deliveries, and we've been very vocal and have communicated that in the past.

The exciting part is, we see our redevelopment pipeline continue to make progress, and Mac can add color to that. You saw us start The Abbot. You saw us -- we're making great progress on Westwood. Market Common is underway. All of these are why we believe our future NOI -- very clear that our 5 year average from this point forward will be back in that 3% range, which is consistent with our objective. With respect to Barney's, I'll let Jim comment on the re-lease..

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

Yes. Christy, you're right that it is a bit of a unique property for our portfolio. But ever since the merger, we felt that, that underlying real estate and the Chelsea address had really long-term potential for future opportunity. That's backed up a little bit by the fact, we had unsolicited offers to buy that asset in the past. The trade area continues to improve. And at the end of the day, yes, we think there is value at play should we get the real estate back. Obviously, there's tremendous amount of uncertainty as to what will happen in -- during this discussion of bankruptcy, but our team is evaluating options as we speak. So more to come as we learn more.

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

Okay. And then understanding you raised your disposition expectations to help fund Pruneyard. But do you have anything under contract for sale today? Sorry, if I missed that, Mac, in your comments. And was the downward revision to the disposition cap rate a function of the mix of what you're selling? Or just sort of better execution than what you expected?

Dan M. Chandler - *Regency Centers Corporation - EVP of Investments*

Thanks, Christy. Nothing under contract, although we're negotiating three different purchase contracts to identify the buyer. And then we have three other properties that we've taken out to the market, so they're officially on the street. So initial interest on those look really good. So we feel good about it. And then -- and the reason we've lowered our cap rate on the dispositions is, we've got a little bit better pricing than we expected. And if you look at what we sold today, keep in mind, too, we had to -- about 1/3 of those assets are Louisiana properties that sold for roughly a 10 caps. So you -- when you average that in there, gives you a good indication of the quality of our properties and the pricing that we've been able to realize.

Operator

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

Jeremy Metz

Congrats on all the appointments. I'll echo Christy's comment there. Hap, you mentioned...

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

Thank you, Jeremy. Thank you.

Jeremy Metz

So in the opening remarks you mentioned the lowering of the same-store NOI range and the delay in timing for some rent payments. I'm just wondering any more color you can give on that in terms of what's driving some of that relative to the expectations? I mean, you did mention the permitting and the construction delays, but I don't really think this is necessarily new. We heard about this process strategy last year. So I'll assume some of that was built on the expectations. But any more color on that?

Michael Mas - *Regency Centers Corporation - MD of Finance*

Let me start, and again, we'll clean up for me a little bit here. But again -- I appreciate you bringing it up. So we are focused and our team's eyes are pointing towards the lower end of the range right now. And it's really due primarily to the timing of our net leasing activity that we experienced over the first 6 months. So the way I'd like to describe it in other words is, we're expecting our average rent paying occupancy to be a little bit lower for a little bit longer this year. And that is lower than what we had hoped for. And however, it is more consistent with the assumptions that we had in place supporting the lower end of our range. So it wasn't out of the question as we look at the year. Importantly, we remain very comfortable with the assumptions on both ends at this point in time, although our eyes are pointing toward the bottom. At this point in time in the year, it is more about move out assumptions, obviously. And with respect to that, more positive results on that front as well maybe an increase in timing on the rent commencement is what could get us to outperform. So we'll focus on that. But again, it's really timing. Tenant demand is healthy, and Jim will speak to that. Our volumes have been good -- have been very good. They're roughly in line with our expectations and they're roughly in line with prior years'.

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

Yes. Jeremy, and I'd just piggyback Michael a little bit on that. The volumes have been strong. Pipeline is solid. When you look at our shops, the -- we've -- we're at 91.5% on the small shops space today. We've consistently been in the 91% to 93% range, which has been, quite frankly, at or near at the top of our sector. So we're still optimistic and bullish on the tenant demand. We think the continued execution on our redevelopment, remerchandising opportunities and efforts will continue to keep this in that 91% to 93% range. And personally, I'm bullish that we can move towards the higher end of that range as we execute on these redevelopments and remerchandising.

Jeremy Metz

Helpful. And then second for me, just in terms of the Pruneyard acquisition. Should we think about this just more as a stabilized type of acquisition, or is there any value add or notable upside potential there that you can be sitting on? And then just sticking with anything further in the pipeline on the acquisition for, I think, committee get to the goal line here.

Dan M. Chandler - *Regency Centers Corporation - EVP of Investments*

Sure, Jeremy. This is Mac. I think in the short term, you can expect this to be, as we've discussed, very solid property with great CAGR. It's got 3.5% 10-year CAGR. It is going to pick up kind of quickly because there is about 5 tenants that are in buildout, that haven't commenced rent, that should happen over the next 9 months.

Further out, maybe 10 -- more than 10 years out, there's a couple of other boxes that will roll the market and there could be some really interesting opportunities here. The Sports Basement box sets itself up. You could do a lot of different things with that. Don't want to get ahead of ourselves, but it is one of the reasons we like the property long term. There's tremendous demand for office, multifamily and retail, just the kind of demand that we look for.

As to other acquisitions, we're only guiding what we're getting really close on. There are a couple of properties that we are looking at, that are acquisitions that would have a redevelopment focus and we really prefer those properties that use our team, our platform and our capital, and there's 2 midsized projects that hopefully, we can give you a little bit more color on next quarter.

Operator

Our next question is from the line of Richard Hill with Morgan Stanley.

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

Lisa or Mike, I want to come back to Pruneyard and think about how much of a benefit it was to FFO. Recognized you kept the FFO guide consistent at a tighter range despite the $0.02 onetime noncash in straight-line rent charge. So that mean we should think about Pruneyard as a -- maybe a $0.02 benefit that offset that?

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

No. Rich, it's -- in my prepared remarks, I think I commented that we were doing this essentially on a nondilutive -- although, I didn't say accretive, but it's essentially earnings-neutral. With the fact that going in cap rate in the mid-4s and we're going to be funding that partially with dispositions. And you've seeing our dispositions guidance, we're able to offset the cost of that dispositions with lower cost debt. So it's essentially earnings neutral.

Yes, if you just -- we'll remind everyone just strategically why these acquisitions make sense. It's been a -- it's a -- it's an important part of our capital allocation strategy to continue to fortify that NOI growth to acquire premier assets. And we've talked about it in the past. And it's no accident that we've been able to maintain and lead our sector with above average same property NOI growth. And we think the continual enhancements of the quality of the portfolio. We don't need to, but we're very opportunistic in doing so. We think that, that's an important part of our strategy.

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

That makes perfect sense...

Michael Mas - *Regency Centers Corporation - MD of Finance*

Rich, real quickly on FFO. The offset to that noncash charge was, as we indicated in the call, better G&A expectations as well as a slight timing enhancement to our dispositions.

Operator

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

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

Yes. Also I'd like to jump on and give congratulations to all those promoted in terms of the executive leadership change, and it's great to see talent developed within the company. So again, congratulations.

I wondered if we could discuss this a little bit, the allocation of capital of redevelopments versus acquisitions. And maybe talk about what was more compelling reason to buy Pruneyard. Was it it's asset quality or it's upside opportunity?

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

I think that the number one use of our capital, $170 million of free cash flow, is to fund our development and redevelopment program. And the majority of those investments today are redevelopments. And then I would say then the second priority becomes value-add acquisitions, like the two that Mac implied that we're looking at right know where there's a meaningful upside. And then the third category would be core acquisitions, high quality acquisitions with superior growth prospects, like Pruneyard at 3.5% project NOI growth, plus some potential upside beyond that. And we're funding those through the sale of assets. And as Lisa mentioned, given our plan right now, we think that we can do it on essentially earnings- and balance sheet-neutral basis with superior NOI growth going forward and/or value add opportunities going forward.

Operator

The next question is from the line of Samir Khanal with Evercore.

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

So just switching gears a little bit on grocers. I know -- just curious to get your views on Albertsons. It sounds like they're starting to move in the right direction. They're addressing leverage. Curious as to see what you're seeing on the ground given the exposure they have?

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

I'll take that one, Samir. Just for the past couple of years really, we -- 3 years potentially, even we've seen continual improvement in the actual store operations of Albertsons, better sales, sometimes only anecdotally, if they're not reporting, but generally better operations. And as they went through some management changes, and we know their management pretty well, especially their last CEO, and under that very short period of time, after that kind of failed Rite Aid merger, they really pivoted on improving their balance sheet as well and they made tremendous improvements in their balance sheet and further improvements in their operations, and even in their margins. If you were to go read some research reports, you'll see that Albertsons actually has some of the healthiest EBITDA margins in the sector. So that's Albertsons, and that's how -- so we're comfortable with the direction in which they are headed.

But even more importantly, the quality -- we really like our real estate and the quality of the grocers, the individual stores of Albertsons that we have in our centers are above average, and the real estate itself is well above the average. So we like our position with Albertsons, but we do recognize the potential risks that are there.

Operator

The next question is from the line of Brian Hawthorne with RBC Capital Markets.

Brian Michael Hawthorne - *RBC Capital Markets, LLC, Research Division - Associate*

Equity One had mentioned a big uplift from anchor expirations. How much of that is left to go?

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

We -- appreciate the question, Brian, and you'll recall from our last Investor Day, we cited 40, what we call legacy leases, and that's -- those are a combination of both legacy portfolios of anchor leases that are coming due. A lot of that remains, and that'll all be supportive of this 5-year plan that we feel good about and our ability to generate organic NOI growth in that 2.25% and 2.5% range, and then supplementing that with redevelopment opportunities. Some of those legacy leases are what triggered these redevelopment opportunities.

Brian Michael Hawthorne - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And then on Mellody Farm, it's like 90% leased. When do those tenants start paying the rent? And I guess when do you kind of get to that stabilized yield? Or what do you expect to get there?

Dan M. Chandler - *Regency Centers Corporation - EVP of Investments*

Sure, Brian. This is Mac. We're up to 93% leased and committed. And in this last quarter, we've leased more than 35,000 square feet, including deal of West town, which we thought was really one of our last sort of pivotal spaces. Most of the tenants are open, operating, doing well, reporting sales in excess of their projections. So I think by year-end, we should be at a stabilized lease spaces. But this -- and if you get a chance, we encourage you to get out there and take a look at it. It's doing well, and we're very pleased with that asset.

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

The center looks fabulous. And I can also -- not only the place making there, but also the merchandising is exceptional.

Brian Michael Hawthorne - *RBC Capital Markets, LLC, Research Division - Associate*

But when you say by year-end reached a stabilized yield, that means like by December? Or do you mean by fourth quarter, you'll be at the 6.8% yield? I think that's what the assessment (inaudible).

Dan M. Chandler - *Regency Centers Corporation - EVP of Investments*

Well, definitely, December, the fourth quarter is pretty finite. I would just assume by year-end at this point.

Operator

The next questions from the line of Vince Tibone with Greenstreet.

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

First off, congratulations from me as well. My first question is, how do you think about your cost of capital today? Based on guidance changes, it appears you prefer dispositions over assumed equity to fund acquisitions. And I'm just curious, is there like a certain stock price for you to consider assume equity to fund external growth?

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

Well number one, as we've said before, we start with $170 million of free cash flow after dividends, after CapEx and the #1 priority of that is to fund developments and redevelopments. And then beyond that, we look at how we can make a trade, whether it's -- we're selling property to buy back stock that we've done in the past or selling property to fund acquisitions as we're doing with the Pruneyard, sometimes using debt. And at times in the past when we thought when the trade made sense, we'd issued equity.

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

Got it. That makes sense. My next is kind of your acquisition strategy going forward. I mean, do you think Regency could buy more large ticket items, since there seems to be significantly fewer potential buyers, let's say, $100-plus million centers versus small dollar centers? And then I was just curious, are there any markets or regions that you think are particularly attractive today and you're actively looking to increase our exposure?

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

I'll let Mac add color on the markets. But I'd just reiterate what Hap said in terms of the use of our capital and the fact that we are -- we're opportunistic. And then to the extent that we're able to identify and have the ability to acquire shopping centers with a value-add component or with above-average growth, and we're able to fund it on an essentially leverage-neutral basis and an earnings-efficient basis. We'll continue to do that. We think it's an important part of our strategy. But I'd also reiterate, we don't need to. When we talk about our organic business model, it's same property NOI growth, it's our developments and redevelopments that are funded by the $170 million of free cash flow and it's the strength of our balance sheet and our talented team. Acquisitions are generally additive to that.

Dan M. Chandler - *Regency Centers Corporation - EVP of Investments*

Yes. I'd only add, we're -- we are always in the market looking for really compelling opportunities. You can see what we bought in the past and we've been buying in the coast. We bought a great center in Florida a number of years ago. We bought a great center in Raleigh. So it's dependent on obviously the dynamics of the market, the intersection, the demographics and the health of the tenants. We look at carefully the rent load as compared to sales. So could we buy another large acquisition again? I would say, it just depends, but it would have to be compelling. And we look at all these factors that we discussed.

Operator

(Operator Instructions) The next question's from the line of Michael Miller with JPMorgan.

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

Obviously congratulations from our whole team here as well. So I guess first for the Pruneyard higher same-store NOI growth CAGR. Can you tell -- talk a little bit about what the mark to market is? Or is it coming from outsized bumps, the combination of it? And are the bumps comparable to your portfolio or even above those levels?

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

Sure, Michael. Much of the growth in there is due to embedded rent steps. And the tenants that -- the least that we're inheriting have very strong bumps, little bit better than what we have been able to get compared to our overall portfolio. But it's not surprising given the strength of the center of the strength of the market and the demographics. So have tenants signed up for higher bumps because they expect to fully realize higher profits over time given the tremendous trade areas. So there's a little bit of roll over, a little bit of mark to market there is in every center. But there isn't, for example, one big box that's coming back in year 6 that's driving the model. It's not one of those situations. It's very much lease-to-lease.

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

Got it. Okay. And then I know the watch list was brought up earlier. What portion of your ABR does the current watch list make up in aggregate?

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

It's a good question. I'll give you a long-ish answer. We use a pretty extensive watch list internally, and we like to beef it up. We like the teams to be aware of where we see issues, which can be financial. So that's more of a the traditional bankruptcy risk that you see. That list, frankly, has -- absent Barney's, has push them aside, has actually shrunk over time really from Sears and actual realized bankruptcies occurring.

The second part of the list we used is just the store closures, the store rationalization list. And this is where we'll include concepts that we feel may be oversaturated. Importantly, in that environment, Regency historically performs better. We find when fleets are rationalized, it is very often that their locations within our centers are higher performers, upper tier, upper half of their portfolios, and we just do better in that regard.

And then lastly, we like to include otherwise healthy financially risk -- financially tenants that, for whatever reason, are maybe stub their toe. And a good example of that would've been Chipotle in the past with the food quality issue that they came across. So we do include them on our internal list. The percent of our overall rent is in -- it's well under 2%, probably in that 1.5% range. And that's really across those 3 categories, Mike. So it's pretty broad.

Operator

Our next question is from the line of Linda Tsai with Barclays.

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

Let me add my congratulations to everyone. Lisa and Mike, you guys make a great team. I know Sears had a 40 basis point impact on the same property in the quarter. What kind of impact do you expect in 3Q and 4Q and maybe just shed some update on the re-leasing of those boxes.

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

Sure. Let me take that -- let me take the impact question, and Jim will handle the re-leasing. We're expecting, all bankruptcies included in the second half of the year, it's in that 30 basis point range as an impact on same property growth, primarily, through base rent.

Dan M. Chandler - *Regency Centers Corporation - EVP of Investments*

I want to jump in on our Hancock Center, which is where our largest Sears is. That's a very good center that we own there. And it's in part -- it's in Austin. It's a terrific market, just north of the city. It's also anchored by H-E-B that does over $100 million in sales. So it's got great tenant performance and great foot traffic. The existing box has great balance, great structural integrity, great ceiling heights, great column layouts and it really sets itself up well for an adaptive reuse. So we've been setting these plans. We haven't picked a definitive angle that we're going. But I would say, the likely approach is, we're going to convert into a creative office. The strong demand for tenants looking for spaces just like that. It's going to take a little bit of time, but because we'd be using the existing box, it doesn't take any discretionary entitlements. So more to come on that one. But I would say we will be able to start that construction next year and deliver to tenants about 12 months following the commencement of construction.

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

The last Kmart we have is in Gainsville, Florida, and we are at LRI with the market-leading grocer for that particular box. And I would suspect that we will have a little more clarity in the next 6 months on the direction of that and probably an 18- to 24-month deliverable.

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

And then maybe just addressing the comment that retailers that are closing stores, but tends to happen less at Regency given your higher-quality centers. In terms of Dressbarn and GNC, how much exposure do you have there? And then how do you feel about those rents versus market?

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

Our exposure for Dressbarn, we only have 8 locations. It's about 10 basis points, Linda. And then GNC is in the 20 basis point range. We -- Jim can comment further. We -- this is kind of regular way of business for us that we feel really good about the re-tenanting opportunities.

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

Yes. There's nothing unique there. We're happy to get our space back. We've been watching obviously both of them for a while. And we really -- like I said, we think we've got an opportunity to upgrade our merchandising at the end of the day.

Operator

At this time, I will turn the floor back to Hap Stein for closing remarks.

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

Once again, we thank everyone of you for your interest in Regency, and give me a one more call and I'll look forward to that, and really enjoyed the relationships with the investment communities. And it's been special. And it's -- we've had -- because I get to work with a good team, it's been extremely successful. More often than not, the story is easy to tell. So -- but thank you all very much, and everybody, have a great weekend. Bye-bye.

Operator

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