THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

REG - Q1 2019 Regency Centers Corp Earnings Call

EVENT DATE/TIME: MAY 03, 2019 / 1:00PM GMT

OVERVIEW:

Co. reported 1Q19 results.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

J. Christian Leavitt *Regency Centers Corporation - Senior VP & Treasurer*

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Christopher Ronald Lucas *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

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

Derek Charles Johnston *Deutsche Bank AG, Research Division - Research Analyst*

Jeffrey John Donnelly *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Ki Bin Kim *SunTrust Robinson Humphrey, Inc., Research Division - MD*

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

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

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

Wesley Keith Golladay *RBC Capital Markets, LLC, Research Division - Associate*

PRESENTATION

Operator

Greetings, and welcome to the Regency Centers First Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Laura Clark, Senior Vice President, Capital Markets. Thank you. You may begin.

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

Good morning, and welcome to Regency's First 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 Investment; 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 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 want to touch on the earnings and (inaudible) disclosure changes effective this quarter. These include updates to NAREIT FFO, and the treatment of gains on sale and the impairments of land as well as accounting changes from the adoption of the new leasing standard and are summarized in our earnings release and quarterly supplemental. We hope that these details will facilitate this accounting and reporting transition. Hap?

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

Thanks, Laura. Good morning, everyone. As you'll hear from Jim, Mac and Lisa, we feel good about this quarter's performance, operating fundamentals and the outlook for the business. We remain confident that Regency is extremely well positioned to successfully navigate threats and prosper from opportunities by intensely managing and leasing our high-quality portfolio, by executing on our value-add development and redevelopment program and self-funding capital allocation strategy, all while maintaining our strong and conservative balance sheet.

Before turning it over to Jim, I'd like to touch on why we really like having grocers in 80% of our centers. This begins with the fact that the grocers in our portfolio include the top operators in the country and are producing sales that average $650 per square-foot and benefit from [an occupancy] cost. At the same time, the grocery business has always been highly competitive and is evolving at an even more accelerated pace. Still having a physical store located close to the customer in the best centers has and remains a centerpiece of their business model.

Importantly, it is the store that provides the best opportunity for the grocer to win the customer through a compelling combination of service, experience and value. Several examples include: Publix's impressive top and bottom line growth, results from their focused on paramount importance of their employees who are critical to creating a pleasant shopping experience. Opening new stores and renovating existing ones remains a critical component of their strategy. It is also worth noting that Publix continues to be one of the top buyers of shopping centers.

Kroger has a heightened focus on integrating technology and strategic partnerships to better service their existing customers and create new ones. Their ClickList, Restock Kroger and alliances with Ocado and Walgreens are among their more notable initiatives.

Grocers like Whole Foods, Trader Joe's, Sprouts, H-E-B and Wegmans achieved extremely high levels of in-store sales as a result of the compelling and often unique shopping experiences, and each is expanding their store base with no change in the size of their store footprints.

Albertsons Safeway is investing well over $1 billion annually in their core business. They are likewise focused on the customer experience, including remerchandising with more organic and gourmet offerings as well as using technology to support multichannel customer satisfaction. Importantly, Albertsons, again, experienced improved financial performance in 2018 with consecutive sales and EBITDA growth, better margins and a $1.5 billion reduction in debt. Furthermore, Regency's Albertsons location are in highly desirable trade areas with the center benefits from its competitive position. The majority are in West Coast markets where the Albertsons Safeway banner is the market leader.

The bottom line is that our grocery anchors are proven operators that are evolving for their customers and generating significant daily traffic to our centers, including the added convenience of buy online, pick up in store. Jim?

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

Thanks, Hap. Performance and operating fundamentals were sold in the first quarter with nearly 3% NOI growth in the same property portfolio driven entirely by base rent. Our tenants are healthy, demonstrated by historically high collection rates, which translates into very low bad debt. Rent growth has stabilized in the high-single digits, and we continue to have a lot of success incorporating midterm rent steps into our leases, which is a key component of our strategic objective to average 3% same property NOI growth.

Our same property portfolio still sits at a strong 95% leased. The sequential decline this quarter was primarily due to the closure of 2 Sears locations, but we are very excited about the redevelopment opportunities to upgrade the merchandising mix and overall appeal of these centers.

Our shop space is 91.5% leased, which I want to note is among the highest in the sector. This quarter, shop occupancy was impacted by a couple of things: first, an expected seasonal trend of slightly higher move-outs as is typical in the first quarter; second, lease execution timing is taking longer as tenants remained discerning and deliberate in their leasing decisions; and lastly, we continue to execute on our proactive asset management and center repositioning, which includes recaptured shop space in conjunction with our redevelopment assets, which is causing a negative impact of 50 basis points to our shop space percent leased this quarter. And we continue to take an aggressive approach to upgrade the quality of the merchandising, especially at those properties acquired in the merger.

All that said, many successful local, regional and national retailers continue to look for new locations in high quality centers, and the depth and velocity of our leasing pipeline remains healthy. We feel good about the level of tenant interest where we're seeing demand across all regions within expanding REIT categories like off-price, fitness, restaurants, entertainment and grocery users for both anchor and side shop spaces. We believe tenants are making thoughtful business decisions as they commit to opening new stores.

Looking forward, we believe as the year progresses, occupancy will increase as our team executes on our redevelopments and reanchoring opportunities, supported by this robust pipeline of tenant interest. Mac?

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

Thanks, Jim. We had another successful quarter, executing on our capital allocation strategy. This starts with $170 million of annual free cash flow after capital in dividends, enabling us to fully fund our development and redevelopment on an extremely favorable and cost-effective basis. This clearly differentiates Regency's business model. The inherent quality of our portfolio and our free cash flow allows us to be selective with capital recycling as we identify compelling investment opportunities that can be executed on a basis that is tax efficient and mitigates adverse impacts to earnings.

In the first quarter, we sold 7 shopping centers for a total of $137 million. As we previously communicated, this sales activity funded prior year share repurchases as well as investments in the high-growth premier acquisitions. A prime example is Melrose Market, an exceptional center near downtown Seattle acquired in the first quarter with excellent growth prospects. Also during the quarter, we acquired an additional interest in Town & Country in Los Angeles. Our total interest is now approximately 20%, and we have the opportunity to increase this to 35% and possibly even more.

We could not be more excited about the value creation opportunities at this shopping center, anchored by Whole Foods and CVS, and located across one of the top-performing malls in the country, The Grove. Redevelopment of this asset, which is expected to start in late 2020 or early '21, will include 80,000 square feet of new retail in place of a former Kmart box plus 325 mid-rise apartments to be developed by Holland Partners on a 99-year ground lease. The vibrancy, tenancy and density of this site is an incredibly attractive addition to our portfolio.

This quarter, to provide more visibility into these types of future opportunities, we have added new supplemental disclosure regarding select operating properties with near-term redevelopment opportunities. This includes The Abbot in Cambridge, that started subsequent to quarter end; Westwood in Bethesda and Costa Verde in San Diego. We hope this new disclosure provides more transparency into the depth of our pipeline and the incremental value that will be generated as we execute our plan.

Our developments or redevelopments are performing well, at nearly 90% leased with strong leasing momentum and yielding a blended 7.5% return at margins that remain well above cap rates for comparable high-quality shopping centers. On top of our (inaudible) processed projects, we have a pipeline of future development and redevelopment opportunities that should enable us to meet our objective of $1.25 billion and start the deliveries over the next 5 years and create significant value. Lisa?

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

Thank you, Mac, and good morning, everyone. 2019 is off to another good start with first quarter results in line with our expectations. I'd like to begin with additional color around our same property NOI and earnings guidance.

We are maintaining same property NOI guidance in the range of 2% to 2.5%. And while we do not provide quarterly guidance, I think it's important to note that we expect next quarter to come in below 2%, primarily due to the 2 Sears closures and timing of reconciliations.

As we have previously communicated, our 2019 same property guidance range does fall below our 3% strategic objective due to the closure of these Sears locations as well as a muted contribution from redevelopment. However, we feel confident in our ability to achieve our 3% objective over the long term.

Turning to earnings, we had 2 nonrecurring items in the first quarter, resulting in a negative $0.03 per share impact to NAREIT FFO. The first item was an early redemption charge of the $0.06 per share related to the prepayment of our 2021 bonds, following a successful 30-year bond offering executed during the quarter. This offering further enhanced our financial flexibility and increased the duration of our average maturities to over 10 years while maintaining our weighted average interest rate.

In addition, we incurred a positive noncash impact of $0.03 per share related to the recognition of below market rent and tangibles for 2 anchor boxes that we got back during the quarter where we are upgrading both spaces at a much higher rent. With these 2 impacts, we have updated our FFO and noncash guidance accordingly. Excluding these impacts, the midpoint of our FFO guidance is unchanged.

Importantly, in the first quarter, we grew core operating earnings by 3.4% when adjusted for the lease accounting change, and we continue to expect growth for 2019 to be in the 2% to 4% range. As a reminder, core operating earnings eliminates certain nonrecurring and noncash items. We believe this is a better measure of the performance of our business as it more closely reflect cash earnings and our ability to grow the dividend.

Before turning the call over for questions, I would like to reiterate that team's continued execution on our proven strategy through the combination of our strategic advantages. First, our high-quality portfolio and intense asset management combined to position Regency to average same property NOI growth of 3% over the long term. Second, our experienced development and redevelopment capabilities will enable us to deliver over $1.25 billion in value-add developments and redevelopments over the next 5 years. And finally, our blue-chip capital structure, which benefits from twin pillars, a conservative and strong balance sheet and $170 million of free cash flow, supporting a self-funding model and low payout ratio.

These unequaled combination of strategic advantages will support our core earnings and dividend growth objectives to average 4% to 6% over the long term, generating total shareholder returns in the 8% to 10% range. That concludes our prepared remarks, and we now welcome your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Christy McElroy of Citi.

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

Just with regard to same-store NOI. So it seems like base rent growth was driving much of that overall same-store growth in Q1. Just with occupancy down year-over-year, outside of the usual contractual rent growth, could you maybe just sort of walk us through the main drivers of that base rent growth and how you see that trending through the balance of the year?

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

Yes, Christy. This is Lisa. We still -- the model that we always share, really, and that was also is part of our initial earnings guidance at the end of year, is still an accurate reflection of that. So 1.3% growth can come from contractual rent steps, and that is obviously in that base rent line item. Then you have another piece of that is coming from rent spreads. And so that's been in the high-single digits, so that will add another, call it, 100 basis points. So that gets you to the 2.3%. And then, the Sears impact, we did get 2 months of Sears income in the first quarter, so that's actually also in that line item. And then going through the rest of the year, that's going to become more of a drag. So while we had $0.28 for quarter 1, that is actually going to decline through the rest of the year.

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

Got it. And then, Jim, I just wanted to follow up on your comment about lease execution timing taking longer. Is this sort of more of the same of what we've been seeing in recent years? Or is this sort of a more recent change that you've observed? And if it is more recent, why do you think -- what do you think is driving that?

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

Christy, I think it's a continuation of the thing we talked about. I think, as retailers mature, especially side shop retailers, the survivors are very astute business people. They're very cautious and deliberate about what they do. And as they make those kind of commitments, they're being very deliberate. So we are seeing more of that time to execution than -- it's become more apparent, I think, than maybe we used to see it, but it's been out there.

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

Okay. Just wanted to make sure it's not something new.

J. Christian Leavitt - *Regency Centers Corporation - Senior VP & Treasurer*

It's -- yes, it's not a sea change but it's common assiduous change. Incremental.

Operator

Our next question is coming from Rich Hill of 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 this is a follow-up question for you, modeling. It looked like 2 line items that we were focused on, other rental income, was maybe a little bit lower than we were expecting on an annualized basis, and then ground rent expense was maybe a little bit higher than what we were expecting. I know these things can be a bit lumpy, but I'm curious if there was -- if this is just timing related or there's anything that we should be thinking about going forward.

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

No. But when you -- if we think about the full year for the remainder -- the projections for the remainder of the year, the primary line item that's going to drive same property NOI growth is base rent. There is going to be timing impacts, from reconciliations from other income, from all of those other line items. But at the end of the year, when you look at individual line items, the driver will be base rent. And as I've said to Christy, while it was -- it's 2.9% in my numbers. Some of you have 2.8%. While its 2.9% growth in the first quarter, we're going to see Sears continue to drag. So Sears was only a 10-basis-point impact in the first quarter. That's going to be growing to 40 bps for the full year. And then just as we talked about at the beginning of the year, as we talked about at the beginning of every year, the most uncertain part of our business, are unplanned move-outs, and they are also immediately impactful. And you saw from our numbers that we had move-outs in the first quarter, which is very typical, as Jim mentioned, from a seasonal perspective. We do not have those, though, in the past few years, and so we were able to raise that kind of low end after the first quarter, which we're not able to do this year because we did actually experience those move-outs.

Operator

Our next question is coming from Craig Schmidt of Bank of America.

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

Just given the higher and earlier pace of dispositions, I'm wondering if the intention is to slow the disposition process for the rest of the year? Or may you raise the target going forward?

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

Mac and I are looking at each other. We're arguing who's going to answer it. So I'll take it from a guidance perspective and Mac can add color in terms of the market in general. So just a reminder that the dispositions, these early dispositions are really funding last year's share buyback. So with regards -- I'll let Mac take it from there. But again, just a reminder that the early dispositions are funding the share buyback. And when you look at our guidance, you can see what we're expecting for the remainder of the year. However, we're always potentially going to be opportunistic. And with that, I'll hand it over to Mac.

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

Well, I don't have a whole lot to add at that point. But I would say that we have executed in accordance with our expectations. We are meeting our prices, cap rates are stable for these assets and I'd say that the buyer pools is a little bit deeper than maybe we've seen in the last quarter or two. So we feel confident about our ability to meet our plan for the rest of the year.

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

Okay, great. And then just a follow-up on -- I wonder how the push on contractual rents -- I know you're right around 1.3 and you're targeting 1.5, but how are there retailers reacting to slightly higher contractual bumps?

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

We continue, Craig, to have really, really good success in implementing those embedded steps. I think 90% of our shop space are running about 2.5% average annual rent step. And it's -- you combine that with our rent growth at 8.8%, and that's kind of, as Lisa outlined, that's kind of our key to the bedrock of our sustainable NOI growth.

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

And I mean, is it the quality of the portfolio that's allowing you to push this? Or is it just something else?

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

No, I think certainly the quality. And it's just -- we fight hard for in the field, and we have continued to have good success in doing that. I think part of the time issue is that we are selective on who we're leasing to. And even though you may be getting pushback from the tenants, we're negotiating hard to achieve the kind of -- the tenants that we want and the terms that we want.

Operator

Our next question is coming from Samir Khanal of Evercore ISI.

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

So I guess, Lisa, can you remind us how much cushion you have left to account for unexpected vacancies at this time as part of guidance? I think, correct me if I'm wrong, please, but I think, initially, it was about 100 basis points of credit loss reserve?

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

So I'll give you some of the facts first. So we have known -- the significant known bankruptcies impacting 2019 are Sears and Toys "R" Us. And the impact in the first quarter was 30 basis points, and the full year impact is going to be 60 basis points. I don't like to think of cushion, if you will, with regards to bankruptcies. And again, I'll just bring it back to the most uncertain part of the business going forward are the move-outs. We have a great leasing pipeline that we have a lot of visibility to. We certainly have full visibility to all of the redevelopments that are in process and managing that really well. What we don't know are the unplanned move-outs. So with that, our guidance of 2% to 2.5% is incorporating what we believe to be a prudent level of move-outs that's really consistent with the prior years.

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

Okay. And I guess one for Hap. You've done a great job on the leasing front on the shop space over the last few years. But that's a segment that did have an impact for you and in your peers as well, certainly, in the last downturn. I guess, how do we think about that segment if we do go in a slowdown, let's say, in the future, whether it's 24 months or 18 months, that sort of time frame? What steps are you taking to minimize the impact as you continue to lease space in that segment?

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

Well, I would say a couple of things. Number one, and this has continued to happen is there's been kind of a self-policing or self-rationalization in the tenants today that survived the downturn in '08, in '09 are better operators. And that's continued to be the case. In addition to that, we are much more selective through our Fresh Look initiative, through credit analysis and who -- trying to get the best local, regional and national operators in there. And we feel very good about our lineup with side shop retailers. Does that mean we are going to be totally immune to the next downturn when it occurs? No, but I think we're much better positioned going into whatever the economic conditions we may face in the future.

Operator

Our next question is coming from Derek Johnston of Deutsche Bank.

Derek Charles Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

Given your free cash flow, it does enable a healthy pipeline of redevelopment opportunities. And I believe around $1.22 billion to $1.5 billion has been discussed over the next 5 years. So the question is how do you think about your development pipeline versus your redevelopment pipeline in terms of priority with capital spend? And is it more of a when/where municipal entitlement shakeout or something else?

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

This is Mac. We look at both opportunities, really, equally in many ways. They're different in the sense that a development is ground-up development opportunity, comes out of the ground, and it's new income for the very first time. We continue to look for those. And with our unique platform, we've been successful at finding those opportunities.

For redevelopment, what we like about them is they're in locations where we already know the trade area, and we know it extremely well. And we can time those redevelopments to start when market conditions give us the green light.

So the returns are pretty similar these days. But we like both sets of opportunities. I wouldn't say one is a priority over the other, we're agnostic. And our teams are very much engaged to find both types of opportunities. But to us, they're investments, and they have a strong returns, whether they're incremental returns that are redevelopment or just straight-up returns from the ground up.

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

And, Mac, as you mentioned, I think the key thing is, as you go through the math, $170 million of free cash flow on a, essentially, a leverage-neutral basis is going to fund $250 million to $300 million of annual development starts and deliveries. And so we're very well-positioned to fund those developments and redevelopments, which are very compelling on an extremely favorable basis.

Derek Charles Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

Just secondly, are you seeing increased traction and true proof-of-concept, at this point, from digitally native and multichannel-focused retailers? I mean, are we at the point where we can firmly say this isn't a fad or a beta test, and the demand uptake should ramp over the next several years?

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

I'm happy to take that one. I don't think it's a fad. I think you're clearly seeing those tenants who have begun to engage more bricks and mortar, who came out of a digitally native background, and you're seeing it more and more. I guess the question will be, over time, is what's the depth of their store count? How broad will they go nationally? And how many stores will they do per market? So that strategy is playing itself out, and we'll continue to monitor that. But one advantage of these digitally native platforms is they really know their trade areas well through their data and through their research. And so they actually have told us -- in many ways, they have greater reliability in a new store than a traditional bricks-and-mortar store. And as a result, often they could pay more rent because of their probability of success. So anyway, we see that happening and the depth of it is what's to be determined.

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

And I have something else -- just to remind ourselves everybody on the call, is Amazon paid $40 million plus a door for Whole Foods. Warby Parker, a very successful native digital retailer is expanding very aggressively from a bricks-and-mortar standpoint. So I think that is happening. And I think that these native digital retailers are finding the importance of physical locations.

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

And because this is something we talked about so often, I just -- I think it's important to remember and note that, one, there is no debate among any of the retails, whether they are digitally native or whether their bricks-and-mortar native that the most profitable way to get their goods to their customers is to have the customers walk in the store. And two, the new customer acquisition costs are much lower also with bricks and mortar than they are just digitally. And they've all acknowledge that and recognized that. And I think their strategies are reflecting that as well.

Operator

(Operator Instructions) Our next question is coming from Jeff Donnelly of Wells Fargo.

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Maybe this branches off that earlier question, but concerning grocery and your underwriting process there. I'm just curious how you guys are informing yourselves on how that landscape is going to evolve in the coming years? And what do you feel are going to be the key points of differentiation? I mean is it a decision that runs more to the site, the physical real estate than the retailer? Or is it a little more nuanced than that?

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

The answer to you is the retailer -- the answer is yes. That retailer matters and the site matters. And again going back to the site is what you want to have is a location where if bad news happens, and we hope it doesn't, it becomes good news from a merchandising and from a replacement standpoint, and from a rent standpoint. I think today -- I think the good retailers want to be in the better sites. And good retailers, including the better grocers, want to be in the better sites where they're going to generate significant traffic. And I think it's kind of a self-rationalization process. But I think that we want to do as we indicated, we have, and then part of our history and our track record of working and partnering with the best-in-class operators that get it, that have strong balance sheets and ability to invest in their business. And in effect, pay the rent that we like to get in the better locations. And you look at, whether it's Whole Foods or Publix or H-E-B or Kroger or Sprouts, these are all strong retailers that are continuing to evolve, they know how to provide customer experience, they know how to different themselves. And I think all those factors are critically important to us. Because what we want to do is if they do it -- if we have the right retailer and you're the right grocery anchor, then we're going to be able to track the better side shop retailers, which is also critical to our business model.

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Maybe this is a follow-up on that. I mean do you think it's become clear that a lot of the changes, or a lot of the concepts that people are exploring, like bigger formats, smaller formats, online order and pick up in store, that you've seen a better model emerge? Or is that sort of yet to be determined, do you think?

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

So here's what's so interesting is that Kroger's ideal format is 100,000 square feet. H-E-B's is 110,000 to 120,000 square feet. Publix is in the 50,000 square foot range. Whole Foods' range is from 40,000 to 60,000 square feet. Trader Joe's is in the 15,000 foot range. So it varies. And I think they've all been able to, in effect, continued to perfect their model. I think it's an evolutionary process. But one of the more interesting things that we've noted is their formats have not really shrunk. I mean, other than to fit into infill locations. So I think they've all adopted. They've all got strategies from a formatting standpoint, Jeff, that they think makes sense. And the proof has been in the pudding with their performance.

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

If I could, maybe just a question for you, Lisa, maybe a more conceptual question, I guess, on leverage. There's some property sectors out there, not retail, that have seen their acceptable levels of leverage shift lower in the last 10 to 20 years. As these companies who are public, just fixed income and equity investors become less tolerant to volatility or severity. Regency clearly has a great balance sheet but retail had it challenges, and we've seen leverage shift lower. But it's also happened during a time where the economy has been relatively resilient. We haven't really faced a recession. Do you -- I guess how do you think about where leverage could go in the future to the extent we have a recession and that adds more pressure? Do you see foresee a time where leverage in retail could actually continue to shift lower than it is today?

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

First, we're really comfortable with our balance sheet today. We're not just comfortable, we're really proud of it. We've made significant progress on improving and strengthening the balance sheet, whether it be just with the level of debt that we have and also with the tenor of the debt that we have. With that said, we've been pretty transparent that our target level of net debt to EBIT today is 5x, and we're slightly above that. So we're going to continue to try to drive that down through organic growth and opportunistic actions when they're available to us.

We are always monitoring our capacity levels, our commitments to developments, to acquisitions. And we're sure that if we ever were to go into the crisis that we had in 2009 when there was 0 access to the capital markets for a period of time, that we can actually survive not just -- that was for about 4 months? We could actually survive for in excess of a year. So we're going to continue to maintain that and really focus on that. But at the same time, I don't like to think of it as pressure in a recession, I'd like to think that we've positioned ourselves to take advantage of opportunities because that is the one thing that, in hindsight -- right? Hindsight is 20/20. Have we been in a position then than we are today? There were opportunities that were presented to us that we were not able to capitalize on. And today we'll be able to capitalize on those. And often times, and I've heard Hap say this, right, it's when blood is in the water is when we want to be able to pounce.

Operator

Our next question is coming from Wes Golladay of RBC Capital Markets.

Wesley Keith Golladay - *RBC Capital Markets, LLC, Research Division - Associate*

Can you just comment on the tenant interest from the retail side to be part of this mixed-use projects, the live, work, play? Is it growing? Any particular category stand out? And do they have a preference for being next to a residential or office?

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

I'm happy to answer that one. This is Mac here. We're definitely seeing tenants who are interested in this mixed-use locations, and in part because of the quality of the locations. These tend to be -- have higher densities, better incomes, better access to transit. The office component is a very powerful one. And our restaurant tenants really react positively to office. That's not to say they have to be in our project but if it's across the street or within a 1/4 of a mile where people can walk up, really, is a big boost to restaurant lunch traffic, and also evening traffic and just having people on site. Apartments help too as well. Certainly helps with just active foot count in the evenings. But one apartment is not enough to make a big difference. You need a sizable amount of density within walking distance. But it's also the placemaking that you often find more in a mixed-use environment than you do in a very traditional environment. And that is something else that the retailers would resonate to. They want an environment where the customers choose this location over other ones because it's an opportunity to shop and to dine, to linger, to patronize. And we all know that the longer a customer spends on site, the more they are likely to spend. So there is definitely an interest there, and we're seeing that more and more.

Operator

(Operator Instructions) Our next question is coming from Mike Mueller of JP Morgan.

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

Looking at the past 4 quarters, it looks like your renewal spreads have increased each quarter. At the same time, the new leasing spreads have gone down each quarter. And I know the new spreads will bounce around more, but is there anything we should be looking into as a trend as it relates to the renewal spreads increasing?

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

Mike, it's primarily just related to mix. We feel that we've really settled in actually with -- in terms of a stabilized level of rent spreads on both renewals. And you're absolutely right on new. We could have one transaction that can really drive that. And if you have a 40-year lease, essentially, that rolls and expires, that can have a significant impact on the percentage.

Operator

Our next question is coming from Ki Bin Kim of SunTrust Robinson Humphrey.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So I want to ask you about how you guys balance and how you think about merchandising mix versus rent. And obviously your underwriting business is all time, but are you -- is there a change in that where it's just not underwriting that business to see if it's a good business and if it's internet resistant but trying to even gauge if the management teams at those retailers are forward-thinking enough, dynamic in their thinking enough, where they can be relevant and viable for 10 years on the road? So how do you think about all those things.

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

Ki, that kind of gets to the core of our Fresh Look philosophy. We are really looking for retailers who get it, who do make a difference, do create that special vibe that can drive traffic and help their neighbor tenants. It's a key ingredient to the way we look at our business and the future of leasing. We think we do a pretty good job of that. And it is kind of an interesting struggle that you always have on rent versus use versus credit, and that whole mix has to come together and you make a decision on who you think is going to add the most value to your shopping center. And that's kind of how we go about it.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So you made a comment earlier that retailers are maybe taking a little bit longer to decide where to go. Do you -- on the flip side, do you think [planners] like yourselves are also thinking about a little bit more about who you're bringing into your centers? And is that a bigger consideration?

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

I'm not sure I understood that.

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

Yes. I mean in terms of us being more selective, is that really the question?

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Yes. Basically, yes.

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

Jim mentioned it when he first opened the last answer with Fresh Look. It's actually nothing new for us. I mean we've been really focused on it for several, more than several years now. Because the -- as the retail environment has been changing and with that pace of change really accelerating, we are really -- and we've tried to get in front of it. And we understand that people have so many choices today. And they can -- they don't have to come to our shopping centers. So we need to ensure that we're making our shopping centers a place where they want to come and want to shop. It's convenient, and not only is it convenient but, Jim used the word vibe, it's placemaking. It has to be a good experience. Our retailers, Hap mentioned about grocers are focusing on the same thing. Once they're inside of the four walls, it has to be a good experience because if it's not, they're not going to come. And we really have begun -- I mean we began focusing on that several years ago and being much more selective with the merchandising mix, and the retailers and tenants that we're leasing to.

Operator

Our next question is coming from Chris Lucas of Capital One Securities.

Christopher Ronald Lucas - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

Just a quick one. On tenant falloff for the quarter, was that in line with expectations, better or worse?

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

I'll repeat the earlier answer. Every year, we come into the year, and we do expect to have a seasonal decline in occupancy. I've been in the business for 23 years. And I think for maybe 3 of those, we haven't had it. So it was in line with our assumptions. We were kind of hoping that maybe we'd outperform that, and we didn't. So we're still really comfortable with our guidance of 2% to 2.5%. And we have -- we essentially still have the same assumptions moving forward for the rest of the year in terms of having a consistent level of move-outs that we -- similar to what we've experienced in the past 2 to 3 years.

Christopher Ronald Lucas - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

And Lisa, on that move-out rate, any themes this year versus prior years that maybe differentiated this year's outcome?

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

I'm sorry, Chris, you're a little muffled.

Christopher Ronald Lucas - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

I'm sorry...

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

No. No, and it is obviously, something that we looked at really closely. And not only just this year but we also even -- we looked at kind of what's the mix of our tenants that are in our centers and also that are moving out of our centers and what we're leasing to. And amazingly, it is consistent. We still have the same percentage of restaurants, soft goods, service. And it's really -- it was actually a little bit surprising to me when we looked at it.

Operator

At this time I'd like to turn the floor back over to Mr. Stein for closing comments.

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

We appreciate your time and interest in Regency, and hope that you guys have a wonderful weekend. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may disconnect your lines at this time and have a wonderful day.