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REG.OQ - Q2 2025 Regency Centers Corp Earnings Call

EVENT DATE/TIME: JULY 30, 2025 / 3:00PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Christy McElroy** *Regency Centers Corp - Senior Vice President - Capital Markets*

**Lisa Palmer** *Regency Centers Corp - President, Chief Executive Officer, Director*

**Alan Roth** *Regency Centers Corp - East Region President and Chief Operating Officer*

**Nicholas Wibbenmeyer** *Regency Centers Corp - West Region President and Chief Investment Officer*

**Michael Mas** *Regency Centers Corp - Chief Financial Officer, Executive Vice President*

## CONFERENCE CALL PARTICIPANTS

**Samir Khanal** *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

**Michael Goldsmith** *UBS AG - Analyst*

**Viktor Fediv** *Scotiabank GBM - Senior Associate*

**Steve Sakwa** *Evercore Inc - Analyst*

**Nick Joseph** *Citi Infrastructure Investments LLC - Analyst*

**Todd Thomas** *KeyBanc Capital Markets Inc - Analyst*

**Haendel St. Juste** *Mizuho Securities USA LLC - Analyst*

**Juan Sanabria** *Bank of Montreal - Analyst*

**Richard Hightower** *Barclays Services Corp - Equity Analyst*

**Wesley Golladay** *Robert W. Baird & Co Inc - Analyst*

**Ki Bin Kim** *Suntrust Robinson Humphrey Capital Markets - Analyst*

**Michael Mueller** *JPMorgan Chase & Co - Analyst*

**James Feldman** *Wells Fargo Securities LLC - Equity Analyst*

**Paulina Rojas Schmidt** *Green Street - Analyst*

**Michael Gorman** *BTIG LLC - Equity Analyst*

**Ronald Kamdem** *Morgan Stanley - Analyst*

## PRESENTATION

### Operator

Greetings, and welcome to Regency Centers' second-quarter 2025 earnings conference call. (Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Christy McElroy. Thank you. You may begin.

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**Christy McElroy** - *Regency Centers Corp - Senior Vice President - Capital Markets*

Good morning, and welcome to Regency Centers' second-quarter 2025 earnings conference call.

Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Alan Roth, East Region President and Chief Operating Officer; and Nick Wibbenmeyer, West Region President and Chief Investment Officer.

As a reminder, today's discussion may contain forward-looking statements about the company's views of future business and financial performance, including forward earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to various risks and uncertainties. It's possible that actual results may differ materially from those suggested by these forward-looking statements we may make.

Factors and risks that could cause actual results to differ materially from these statements may be included in our presentation today and are described in more detail in our filings with the SEC, specifically in our most recent Form 10-K and 10-Q filings.

In our discussion today, we will also reference certain non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, which are posted to our Investor Relations website. Please note that we also have posted a presentation on our website with additional information, including disclosures related to forward earnings guidance. Our caution on forward-looking statements also applied to these presentation materials.

(Event Instructions)

Lisa?

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**Lisa Palmer** - Regency Centers Corp - President, Chief Executive Officer, Director

Thank you, Christy. Good morning, everyone. We are pleased to deliver another quarter of excellent results, driven by both internal and external growth. And this is highlighted by the strength of our operating fundamentals and our accretive capital allocation.

On the operating side, we're having a phenomenal year. We continue to outperform on all metrics, demonstrated by strong same-property NOI growth and total NOI growth. In the second quarter, we had great success, commencing rents for tenants in our SNO pipeline, achieved record low shop move-outs and sustained robust leasing activity with strong rent growth.

Our investments team is also firing on all cylinders, sourcing high-quality opportunities and deploying more than \$600 million of capital year to date. Most recently, we are excited to announce the acquisition of five outstanding shopping centers located in a premier community in South Orange County, California. Strategically, this transaction checks all of our boxes. It's accretive to earnings, quality, and growth while enhancing our presence in this supply-constrained Southern California market.

During the second quarter, we also released our annual corporate responsibility report, highlighting our progress and future strategic direction. Our ongoing commitment to corporate responsibility in support of our business objectives remains a foundational strategy for Regency and the many achievements noted in the report reflect the dedication and efforts of our entire team.

Given the strength in our results, substantial progress in leasing, and opportunistic capital allocation, along with greater visibility for the remainder of the year, we are raising our full-year growth outlook for same-property NOI, core operating earnings, and NAREIT FFO. Regency's distinct strategic advantages continue to differentiate our company and position us favorably for future growth.

Our high-quality grocery-anchored shopping centers located in desirable suburban trade areas provide essential retail offerings focused on necessity, service, convenience, and value. Our well-established national development platform allows us to drive substantial value creation. And our strong balance sheet with low leverage and dependable access to low-cost capital enables our team to continue to pursue and successfully execute on strategic growth opportunities.

We are only halfway through 2025, and I am so proud of our team's accomplishments so far. I look forward to building on this success for the remainder of this year, into 2026 and beyond. Alan?

**Alan Roth** - Regency Centers Corp - East Region President and Chief Operating Officer

Thank you, Lisa, and good morning, everyone. Our team achieved outstanding second-quarter operating results, highlighted by same-property NOI growth exceeding 7% with base rent being the largest contributor at 4.5%.

As discussed on last quarter's call, we had anticipated above-trend growth in the second quarter, and we delivered even better results, which were driven by a multitude of positive factors, including robust leasing activity, record low shop move-outs, favorable bankruptcy outcomes, accelerated rent commencement timing on a few key anchor tenants, and meaningful improvement in our expense recovery rates.

We maintained our same property lease rate and continue to grow shop occupancy as our high-quality properties are commanding strong tenant demand from a wide range of categories, including grocers, restaurants, health and wellness, off-price, and personal services.

Our team is seizing every opportunity to enhance merchandising as leading retailers recognize that high-quality, well-located space is in short supply, and it is in centers like ours where these best-in-class retailers are achieving exceptional results.

We continue to commence tenants within our SNO pipeline at a rapid pace driving our commenced occupancy rate higher by another 40 basis points quarter over quarter. At the same time, we are also continuing to backfill the pipeline with new leases. Our lease to commence occupancy spread was 260 basis points at quarter end, representing an SNO pipeline of \$38 million of incremental base rent.

We continue to drive rent growth higher in the quarter for both new and renewal leasing, achieving cash rent spreads of 10%, and GAAP rent spreads of nearly 20%. Our GAAP spreads demonstrate our ability to not only drive mark-to-market rent increases when signing new and renewal leases but also reflect our continued success embedding meaningful contractual rent steps in the majority of our leases.

In summary, I'm really proud of our results and I'm even more proud of the work of our incredible team to achieve them. We are capitalizing on persistent demand for our best-in-class shopping centers and the phenomenal operating trends that exist in our sector as we upgrade our merchandising and drive NOI higher.

With current year lease commencements largely derisked, we are full speed ahead on continuing to build our future lease pipeline as we drive momentum and sustained growth opportunities well into 2026.

Nick?

**Nicholas Wibbenmeyer** - Regency Centers Corp - West Region President and Chief Investment Officer

Thank you, Alan, and good morning, everyone. We've maintained a robust pace of investment activity with more than \$600 million of accretive capital deployment so far this year. Our investments platform is unequalled by our ability to acquire, redevelop, and importantly, develop ground-up best-in-class shopping centers.

As Lisa mentioned, we recently had a tremendous opportunity to lean into acquiring. Last week, we closed on a five-asset portfolio within the Rancho Mission Viejo master plan community in Orange County, California for \$357 million. The R&D portfolio, as we refer to it, is 97% leased and includes more than 600,000 square feet of high-quality retail GLA and one of Southern California's most sought-after suburban submarkets.

These shopping centers are right down the middle of Regency's fairway, strategically positioned at primary intersections with strong trade area demographics and anchored by high-performance grocers. The transaction is well aligned with Regency's capital allocation strategy. Accretive to our growth, earnings and, overall portfolio quality as well as leverage neutral to our balance sheet.

Furthermore, our UPREIT structure provided us a competitive advantage in the transaction offering tax planning optionality to the seller as well as an opportunity to participate in our future success through the ownership of our operating partnership units. We also assumed \$150 million of below-market debt with an average term to maturity of about 12 years.

In addition to the acquisition of these exceptional assets, we continue to successfully execute on our \$500 million in-process development and redevelopment pipeline. Consistent with the fundamental strength that exists throughout our operating portfolio, leasing activity for these projects is robust and blended project returns exceed 9%.

Importantly, our team is completing projects on time and on budget. We are also making significant progress sourcing incremental opportunities, especially in our ground-up development program. While overall supply growth in our sector remains limited, we continue to find more than our fair share of attractive projects as the leading national developer of high-quality open-air shopping centers.

We have started nearly \$50 million of new projects this year. And after two consecutive years of \$250 million or more of starts, we continue to have visibility to at least that level in 2025 with the majority of the investment in ground-up development. Leading grocers and retailers across the country are demonstrating a strong commitment to expand in our markets and partner with us on the high-quality centers we are developing.

In closing, our team is energized and is taking advantage of the flywheel momentum we built within our investments platform to source new opportunities. As a result, we continue to see substantial activity across the board in acquisitions, redevelopment, and ground-up development, fueled by our best-in-class team, sector-leading balance sheet, substantial free cash flow, and access to capital.

We look forward to announcing additional exciting investments in the near future. Mike?

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**Michael Mas** - Regency Centers Corp - Chief Financial Officer, Executive Vice President

Thank you, Nick, and good morning, everyone. As you've heard from Lisa, Alan, and Nick, Regency delivered exceptional results again this quarter. Our same-property NOI and earnings growth surpassed our expectations, and we are grateful for our team's hard work in delivering these results.

Following the strong first half performance, combined with greater conviction on our outlook for the remainder of the year, we are raising our current year earnings guidance. I'll refer you to pages 5 and 6 in our earnings presentation while I highlight some key guidance changes.

We raised our same property NOI growth range to 4.5% to 5%, up 115 basis points at the midpoint. We raised our NAREIT FFO range by \$0.06 per share at the midpoint, now representing full-year growth of more than 7%, and we raised our core operating earnings per share by \$0.05 at the midpoint, representing growth north of 6%.

The increase to same property NOI guidance was fundamentally driven by higher average commenced occupancy from higher shop retention rates, combined with strong lease commencement activity. Additionally, and as a follow-on impact of the elevated occupancy, together with the completion of our annual reconciliation process, we are benefiting from higher expense recovery rates, further amplifying NOI growth.

Lastly, with greater clarity on the outcomes related to some of the more high-profile bankruptcies this year, we are also narrowing our credit loss guidance to 75 to 85 basis points. While the increase to same-property NOI was the largest contributor to our overall earnings guidance range, our accretive investment activity is also moving the earnings needle even higher, including the accretion expected to be generated by our recently announced RMV portfolio acquisition.

We've also substantially derisked our capital raising plan for the year, following the successful execution of our \$400 million bond offering in May. We issued seven-year notes at a 5% coupon, allowing us to prefund our November unsecured bond maturity, and resolve our remaining corporate level financing needs. This issuance demonstrates our clear cost of capital advantage as we remain the only shopping center REIT with an A credit rating from both Moody's and S&P.

Our leverage is comfortably within our target range of 5 to 5.5 times and will remain so even taking into consideration the portfolio acquisition, which was funded on an effective leverage neutral basis.

We continue to generate significant levels of free cash flow, have nearly full availability on our \$1.5 billion credit facility and still have \$100 million of unsettled equity from our forward ATM issuance late last year, which we will settle in the second half of this year. With our sector-leading financial and balance sheet position, we will continue to play offense and execute on strategic investment opportunities fortifying ongoing earnings growth.

With that, we welcome your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Samir Khanal, Bank of America.

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### Samir Khanal - Bofa Merrill Lynch Asset Holdings Inc - Analyst

I guess, Mike, as you alluded, very strong print for same store in the quarter, certainly a big contributor was the base rent. But also saw some positive contribution from recoveries, other income and percentage rents. So walk us through kind of how you're thinking about the contribution from the various components into the second half as we think about the same-store NOI cadence?

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### Michael Mas - Regency Centers Corp - Chief Financial Officer, Executive Vice President

Sure. Hey, Samir. Good morning. Yeah, so last quarter, we spent a little bit of time talking about the known deceleration in the growth rate that we are seeing in the numbers. And that hasn't changed. And however, what I would add to that is the second quarter was exceptional on a couple of other line items, which is kind of just raised the entire sea level, but that bias to the second half of the year being a little lower than the midpoint still exists.

So what's going on here. As you said, base rent will -- has been and will continue to be the largest contributor. But some of the credit loss elements are where that bias is happening in the back half of the year. As we know, we have now more certainty, and we know that the [BK] move-outs from Party City, from JOANN, from Rite Aid, these will be back half of the year elements.

We also have uncollectible lease income. The first half of the year has been incredibly low, well below our historical averages. We are planning for a slightly higher level of ULI in the back half of the year. I will share that we're planning for still below historic levels, but higher than the first half, which is putting a little pressure on that growth rate.

Lastly, there's a comp in the prior year from an uncollectible lease income perspective, again, very low in the back half of last year, so comping to a little bit higher this year and our expectations. There is -- and in the second quarter uniquely, there is some percentage rent that shifted into the quarter from the first quarter. There's other income, which, by definition, is a bit of an uneven line item, and we had a little bit of froth in the second quarter.

And then lastly, I tried to color it up in the prepared remarks about our reconciliations. Again, this is a testament to the team and just rent paying occupancy being higher and it exceeded our expectations on our ability to not only collect rent on a prior year basis, but also to continue to collect recoveries, I should say, on a prior year basis and collect recoveries going forward, which has increased our eye level there.

I hope that helps on the growth rate and the trajectory. But I also hope it doesn't take away from the fact that we've had an incredible first half of the year, and we're looking forward to continuing that momentum.

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**Operator**

Michael Goldsmith, UBS.

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**Michael Goldsmith - UBS AG - Analyst**

Questions just about the same-property NOI growth algorithm. You have a wonderful chart in your presentation that outlines the different drivers, which is driving the 7% property NOI growth during the quarter. Like as we think about it going forward, like occupancy -- kind of peak leased occupancy, maybe still a little bit of room on the commence.

But can you just talk about kind of the shift away from occupancy into some of the other components of the same-property NOI growth algorithm to kind of make up for that? And I know Alan mentioned in his comments, just continued meaningful contractual rent steps in a majority of releases, if you could touch on that as well.

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**Michael Mas - Regency Centers Corp - Chief Financial Officer, Executive Vice President**

Yeah. Let me just start from -- hey, Michael, it's Mike. From the algorithm perspective, I'll let Alan provide some color if he thinks it's necessary. One, I appreciate you recognizing the disclosure. I'm pretty proud of it. The team does a great job sharing that.

On a prospective basis, you're right. We continue to see continued runway on a commenced occupancy perspective. While we are at peak levels of percent leased, we have not reached peak levels of commenced. And that gives us confidence as we move through the second half of this year and into 2026, that we have a continued what I would call above-trend growth profile or opportunity ahead of Regency, and we're excited for that.

I'll let Alan speak to the SNO pipeline in a few seconds, but we should see that continue to compress in a very positive way.

And then lastly, from an algorithm standpoint, let me share that redevelopments have been, and we are expecting them to continue to be quite positive to our same-property NOI growth metric. We've talked about in the past, '25 will have north of 100 basis points positive impact to our same property growth rate.

And actually, as we sit here today, I think that may replicate into 2026. We've done an exceptional job starting and delivering and working on our redevelopment business. And the prospects for that to continue to be positive to NOI growth, I think, will continue into next year.

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**Alan Roth - Regency Centers Corp - East Region President and Chief Operating Officer**

Yeah, Michael, I'll just color up the SNO piece. And I would just say our team is continuing to make really great progress bringing rent online, as I mentioned, in the opening remarks. But I'm even more proud of continuing to backfill that pipeline with additional signed leases. The process is working just in terms of getting our tenants to start plans early, proactively fitting out our spaces to make them more marketable, ordering equipment in advance, all leading to some accelerated rent commencement date.

From a normalized run rate, I think we've mentioned we expect that at a stabilized basis, SNO will be at about 175 basis points, but the compression we had this quarter, it's a great thing, particularly when it's in conjunction with percent commenced going up, which it did 40 basis points. So team is clicking on all cylinders on that front, and I hope that, that number continues to compress certainly over time.

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**Operator**

Greg McGinniss, Scotiabank.

**Viktor Fediv** - Scotiabank GBM - Senior Associate

This is Viktor Fediv on for Greg McGinniss. I'd like to dig into this SoCal acquisition to better understand transaction markets through these plans. So who are you competing lease for the asset? And from your perspective, what gave you a competitive edge in successful executing the deal?

**Nicholas Wibbenmeyer** - Regency Centers Corp - West Region President and Chief Investment Officer

Hey, Greg. This is Nick. I appreciate the question. This is one of those opportunities that I can really sort of pound our chest that it was truly off market. And so -- the seller is a family that's owned these properties literally since the 1800s. They've owned tens of thousands of acres throughout Southern California that they've been masterplan developing now for generations. And they chose us, and they came to us really for three primary reasons in our discussions with them.

First and foremost, the quality of our currency matters. And so the UPREIT transaction was really important to them from a tax optionality standpoint moving forward on their side. And the quality of the currency they were getting in return was really critical, given they are now a large shareholder of Regency Centers. And so we appreciate their commitment to our platform and their ownership now in our company.

So beyond the quality of our currency, the quality of our operations matter. Again, they have a very vested interest in this community, not only and what they've done to develop it to date, but there's future development on the horizon, residential to the east of these projects, and they live and shop in these communities. They're very, very proud of these shopping centers. And so the quality of the operator taking over the shopping centers to make sure they are best-in-class moving forward was critical to them.

And then last but not least, there are future development opportunities within the future phases of their master plan development. And so the opportunity to partner with them on future developments mattered. And so really, when they prioritize those three items, the only company they felt like checked all three of those boxes was us. And so we're very proud to have engaged with them, came up with a quality transaction for all parties involved.

**Lisa Palmer** - Regency Centers Corp - President, Chief Executive Officer, Director

I just need to come over to just for a second and just say I'm really proud of the team because it took many throughout our organization to make this happen. It certainly didn't happen overnight, as you can imagine.

And just ditto to everything Nick said in terms of why the sellers were more comfortable and wanted to transact with Regency, and that goes to the people into our strategy and to the company that we've built. So grateful to the whole team, grateful to the sellers.

**Operator**

Steve Sakwa, Evercore ISI.

**Steve Sakwa** - Evercore Inc - Analyst

Could you maybe expound on the development opportunities? It seems like development yields are quite high for you guys -- the acquisition yields. And I'm just curious if there's incremental discussions you're having with the national retailers about new developments?

**Nicholas Wibbenmeyer** - *Regency Centers Corp - West Region President and Chief Investment Officer*

I appreciate the question, Steve. Again, it's Nick. Yeah, as we've been articulating, I think, now for quite a few quarters. We continue to see demand from best-in-class grocers, growing their physical presence in the markets that we do business. And so, we continue to have very active conversations with those key grocers about partnering with them to help them build their program out.

And so we -- as I've articulated in the prepared remarks, we're bullish on our ability to find those opportunities. They are very difficult. I'll reinforce that. It is challenging to find these deals. But we are best in class. Given our relationships, our expertise, and our capital, our teams just continue to do a tremendous job coast-to-coast partnering with these grocers and putting these deals together.

And so we're bullish. As we've talked about, we delivered -- we started \$250 million in the last two years. And as I said in the prepared remarks, we expect to start that much this year or even maybe beyond that. And we do expect the majority of that to be in Roundup developments given the success our team has had. And in terms of yield, as you've seen, we're in that 7% range, 7% plus, and I would expect us to maintain that yield eyesight for the time being.

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**Operator**

Craig Mailman, Citi.

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**Nick Joseph** - *Citi Infrastructure Investments LLC - Analyst*

It's Nick here for Craig. You touched on the better expense recovery rates in the quarter and net OpEx dropped meaningfully quarter over quarter. So how sustainable is that going forward? Or do you expect a reversal?

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**Michael Mas** - *Regency Centers Corp - Chief Financial Officer, Executive Vice President*

There's a -- it will decelerate from a recovery rate perspective going forward. Again, because of the -- there is a onetime element to the second quarter being that we completed our annual reconciliation process. So not to get too much in the weeds there. But that results in a little bit of prior year recognition that exceeded our estimates that we booked at the end of last year. The rough number there is maybe \$1 million of kind of onetime baked into the second quarter.

I do -- we do anticipate that this recovery rate basically will fall maybe by 100 basis points if you're using Q2 as a run rate going forward. But that -- again, the average in-place occupancy is really what's driving this higher rate of recovery for us. And the average in-place occupancy last quarter, we were talking about that potentially moving by 75 basis points or more in 2025.

Now as we sit here today, given the success we had in the second quarter, we're seeing that move by north of 100 basis points in 2025. That significant change in average commenced occupancy is what's driving the fundamental increase in our expense recoveries.

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**Operator**

Todd Thomas, KeyBanc Capital Markets.

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**Todd Thomas** - *KeyBanc Capital Markets Inc - Analyst*

I wanted to go back to the SoCal acquisition. Do you have any rights to participate in future developments or future acquisition opportunities with the sellers in SoCal within that master planned community. And then you highlighted that it's accretive to Regency's core growth rate, can you just

provide some additional detail on the growth opportunity within the portfolio, which is 97% leased. What's the upside related to? And is there any incremental CapEx or reinvestment capital anticipated in order to generate that outsized growth?

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**Nicholas Wibbenmeyer** - *Regency Centers Corp - West Region President and Chief Investment Officer*

Sure. Todd, let me start with your second question. Yes, we're really excited about the future growth of that portfolio. As you articulated, it is 97% leased. However, we do think there's upside in some of the rents that are in the near term.

And there are some small redevelopment opportunities. There's currently a vacant Rite Aid in the Sandero marketplace that we anticipate redeveloping and soon to be vacated CVS further north in the Bridge Park. And so small redevelopments within that portfolio, but again, exactly what we do every day in our core portfolio.

And so we do expect that growth rate to be north of 3% moving forward. And so although that portfolio has been really well taken care of, really well operated. There's still opportunity for growth within it, which is what we're excited about.

And in terms of your first question, I'll start with the acquisitions first. No, we don't have the ability to acquire more within that master plan community because the answer is simple. We bought all of their assets that currently exist. And so that's what we were so excited about within this acquisition. We own all of the retail servicing these phenomenal master plan developments.

And so knowing that we really do control that market is what we're excited about. And then in terms of future development, there are planned future development, especially on the residential side, again, which is just going to bring more demand to the existing assets. But we do anticipate the potential for future retail, and we have had discussions and very positive dialogue about participating and partnering to everybody's benefit on those projects in the future.

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**Operator**

Haendel St. Juste, Mizuho Securities.

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**Haendel St. Juste** - *Mizuho Securities USA LLC - Analyst*

You guys mentioned plan to settle the \$100 million remaining forwards in the second half of the year. So I guess I was curious what your thoughts or plans were for that capital? I think most of us presumed for development and redev , but also was curious kind of what your appetite for more potential acquisitions could be near term?

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**Michael Mas** - *Regency Centers Corp - Chief Financial Officer, Executive Vice President*

Haendel, it's Mike. Yeah, to reiterate our plans, we're going to settle that in the second half of the year. We have to settle it contractually by, call it, end of November, early December, and we will do that. What we're seeing -- it's all fungible from a use of proceeds perspective. We view it as just additional added capacity for us to continue to grow our development pipeline to continue to find accretive acquisition opportunities. So it goes into that bucket.

I will say there does appear to be some momentum building on our ability to roll up down REIT transactions, smaller joint ventures, where we can take advantage of rolling up and our understanding of those assets and buying the unowned portions of those shopping centers. So that is a -- maybe a near-term direct use of that capital. But on balance, I would just view it as added capacity.

**Operator**

Cooper Clark, Wells Fargo.

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**Samir Khanal** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Could you provide thoughts on further portfolio style deals here and where you're seeing portfolio cap rates for single asset transactions as we think about the SoCal acquisition and the upward revision to acquisition cap rates and guidance?

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**Nicholas Wibbenmeyer** - *Regency Centers Corp - West Region President and Chief Investment Officer*

Sure. Let me speak first, Cooper. This is Nick. So what we're just seeing in the market in general, and then Mike may color up a little bit of just how to think of the cap rate related to RMV. And so we're still seeing overall a lot of demand in our sector.

So no question. There's a capital that's very interested in owning irreplaceable grocery-anchored assets throughout the country. And so whether that's single assets or portfolio quality assets, seeing cap rates push down in the low 5s, depending on the growth profile into the low 6s.

And so there's some stability in that in the sense that it feels like that's the way it's been here over the last couple of quarters given the capital flow and interest in our sector for all of the reasons you're hearing flow through our operating results.

And so, we continue to be competitive. And as we've always said, the really good news about our business plan is we don't have to buy things to meet our growth objectives, given our development and redevelopment program. But when those opportunities present themselves, where we feel like we can acquire assets that are equal or better than our quality and growth profile and that we can fund accretively, we are ready to move and RMV is a perfect example of that.

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**Operator**

Juan Sanabria, BMO Capital Markets.

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**Juan Sanabria** - *Bank of Montreal - Analyst*

Just hoping you talk a little bit about the tenant health on the small shop side. You said that the turnover was less than expected. I guess is that -- why do you attribute that to? And how are tenants feeling about tariffs, particularly on the small shop side where there, I think there's less maybe ability to pass costs for you to have negotiating leverage with suppliers?

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**Alan Roth** - *Regency Centers Corp - East Region President and Chief Operating Officer*

Juan, I appreciate the question. Look, we're looking at foot traffic to our assets, and it remains positive. Our [ARs] are at historic lows. Our sales are up for our retailers, and our pipeline, particularly on the new lease side remains very strong. So your question about the health of the tenant, it's very strong in our portfolio and very proud of the disciplined and intentional approach of how we're managing that.

Retention rate was about 77%. It's a little bit higher than we typically see. And again, I think that's a little bit of a supply constraint that you're seeing out there, coupled with productive stores for them. But for us, cycling through and enhancing merchandise has always been a key thing for us. So we're hearing nothing, but really positive feedback from our existing tenant base.

And as they think through your tariff question, they're time-tested operators. They know how to operate and be agile through uncertain times. And I suspect if the time comes where they need to negotiate with suppliers, they will if they need to consider sourcing goods elsewhere they will,

if it's passing through some expense to the consumer, they will. They're going to evaluate all the levers that need to be done. And I don't believe they're sitting back.

They're evaluating those things now and many are making changes right now. So feedback is positive in pipeline that's coming behind that remains very positive.

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**Lisa Palmer** - *Regency Centers Corp - President, Chief Executive Officer, Director*

Yeah. I would just reiterate what we've been saying for many years. We are -- if you think about our product type, no one really -- no one knows there's no consensus on what the impact will be of policies. But what we do know is that we have a really high-quality portfolio. You just meant we have -- the health of our tenants is really strong.

And we are in good suburban trade areas. And we -- with the focus on essential needs, value, convenience, daily necessities, we feel really good about the future opportunities and growth within our portfolio. The consumers, not only are our tenants resilient, the consumer is also very resilient. And we continue to see that with all of the trends in our portfolio, foot traffic, tenant sales, et cetera, I feel really good about it.

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**Operator**

Rich Hightower, Barclays Bank.

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**Richard Hightower** - *Barclays Services Corp - Equity Analyst*

A lot of good questions so far. But I think maybe just a follow-up on the tightening of the credit loss assumption for 2025. Obviously, that's a good sign. But any indications on maybe potentially troubled tenants for '26, even notwithstanding the comments just now about very strong tenant health. Any sort of leading indicators there?

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**Michael Mas** - *Regency Centers Corp - Chief Financial Officer, Executive Vice President*

Rich, let me just speak to the guidance and the change a little bit, and then Alan can jump into from a tenant health perspective. I appreciate you helping us reiterate that we did kind of narrow and lessen our outlook for credit loss.

And I would like to remind everyone, when we speak of credit loss at Regency, it is a combination both of move-outs from bankruptcies or lost base rent together with uncollectible lease income or traditionally [banded] expense. I'd say both of those elements have declined in our outlook for the year. The BK outlook is what declined the most.

And if you think about what's occurred over the last three months, it's just a lot of clarity. We've had a lot more clarity come to us through the outcomes of these bankruptcy proceedings. And we now know that which stores we will lose and which we won't and when. And the timing and that certainty is what's allowed us to lower our eye level there in a very positive way.

As an example, we learned in May that CVS was taking four of the Rite Aid positions in our Pacific Northwest portfolio. So that is a change to our plan and allowing us to lower our eye level. I mean I don't know if we have much more to add beyond what Alan already shared from an outlook perspective. Our tenants are extraordinarily healthy. The AR that we're looking at greater than 90 days is at historically low levels. We would continue to anticipate a retention rate roughly in the 75 to 80 basis point range. Tenants will move out.

So that element of the business play will change. Active asset management will continue where we are always looking to upgrade our merchandising mix and ensure that we're providing the best product for our consumer. And -- but at the same time, there's going to be bankruptcy filings. It is an element of our business. Tenants will fail.

Regency does better than most in those outcomes. We retain -- in reorganizations, we retain a lot of our tenancies. And when -- and those that we don't retain, we re-lease pretty quickly and oftentimes higher rents.

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**Operator**

Wes Golladay, Baird.

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**Wesley Golladay** - *Robert W. Baird & Co Inc - Analyst*

Just want to talk about the earlier commencements of a few tenants. Were those primarily junior anchors? And are they just looking to open a season earlier?

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**Alan Roth** - *Regency Centers Corp - East Region President and Chief Operating Officer*

Wes, I'm assuming you're talking about earlier commencement of rent, yes, it was a couple of anchor tenants that, in fact, we were just able to accelerate openings is really what it boils down to. And I think, again, that's a testament to driving a very efficient process being front and center, visible and partnering with our retailers to get them open.

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**Christy McElroy** - *Regency Centers Corp - Senior Vice President - Capital Markets*

Wes, did that answer your question?

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**Wesley Golladay** - *Robert W. Baird & Co Inc - Analyst*

Yeah. Well, just -- was it just the ability to get it open or were they kind of push in to say, hey, we want to open instead of maybe fall. We want to get open for the summer? Is there anything like that going on?

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**Alan Roth** - *Regency Centers Corp - East Region President and Chief Operating Officer*

No. I don't -- there was no -- again, I think it's always interests are line, the sooner we can get it open. The quicker we can get our consumer in the faster we can generate sales, which is a real win-win for all of us. I really just don't have much more to add to it than that, Wes. It was just a good partnership.

And I think that is one thing that we pride ourselves on is working together with our customer, which is our retailer, our tenant and doing everything we can to get them open sooner.

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**Operator**

Ki Bin Kim, Truist Securities.

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**Ki Bin Kim** - *Suntrust Robinson Humphrey Capital Markets - Analyst*

Just a couple of quick ones on leasing. The renewal spread this quarter, 17.2% on a GAAP basis. Can you remind me, does that include the options or not? And what would that spread look like without options? And just second question, just over time, any lessons learned on how much you

can stretch occupancy costs and your better quality assets. I realize it's probably higher for those assets, but has that elasticity changed at all over time?

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**Alan Roth** - *Regency Centers Corp - East Region President and Chief Operating Officer*

Ki Bin, good morning. So to answer your first question, yes, it does include options. And our negotiated renewal rates are absolutely higher when you're excluding the option rate from that metric. Your second question was on --

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**Lisa Palmer** - *Regency Centers Corp - President, Chief Executive Officer, Director*

It was basically on our ability to push occupancy cost. I'm happy to take it. I -- because I've spoken about this on other calls and in most meetings. There's clearly -- there's been limited supply. And so the supply-demand equation, we've talked about is in our favor today. It has to be win-win. Alan used those -- used that term as well. Our tenants need to be successful for us to be successful. But they know that there's limited supply. We know that there's limited supply.

So they -- again, they're better operators, they're time tested, and they continue to invest in their business and to really find other ways to eliminate costs in their business so that they can afford higher occupancy costs.

So yeah, we're absolutely pushing. It's why you continue to see the really strong contractual rent steps that the team is getting in our leases in addition to the rent spreads upon expiration.

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**Operator**

Mike Mueller, JPMorgan.

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**Michael Mueller** - *JPMorgan Chase & Co - Analyst*

In the comments, you specifically mentioned working to source new developments. And looking at the sup, it's about a 50-50 split today between ground-up and redevelopment investment. Do you think that's about where the mix is going to stay for the next three to five years? And how deep is the redev pipeline?

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**Nicholas Wibbenmeyer** - *Regency Centers Corp - West Region President and Chief Investment Officer*

Sure. Mike, I appreciate the question. Look, the reality is, as I articulated a little bit ago, we continue to find success in the ground up program. And so I do think, just given where our occupancy is going redevelopments, we are always going to be a core part of our business. We're going to constantly be pruning our portfolio for opportunities to invest capital accretively.

And so I don't want to take away from those efforts. But when you talk about a spend rate and a start rate in the \$250 million-plus range, I do think as you look forward, the majority of that will start to come from ground-up developments. And I think, again, this year, you'll see that flip in terms of our starts as we round the third and fourth quarter here.

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**Operator**

Floris Van Dyke, Ladenburg Thalman.

**Samir Khanal** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

So Lisa, I mean, I've heard you talk about the favorable supply and demand and obviously, one of the best operating environments in history or certainly in recent history, -- has your thinking changed on what's your peak occupancy, both leased and physical can be? And how much more room do you think there is?

And certainly, some of your peers have been achieving higher occupancy levels, leased occupancy than you guys, which historically you've led the sector. Has your thinking changed on how much more room you have to push occupancy levels higher?

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**Lisa Palmer** - *Regency Centers Corp - President, Chief Executive Officer, Director*

Absolutely, and we are continuing to do that. And I feel good that -- I mean we're already surpassing prior peaks. Alan has often said, records are made to be broken, and we continue to break them. So our thinking has changed, and we do believe that we can continue to push higher. And I do believe that the percent leased is highly correlated with quality of a portfolio.

Ours is very well leased. But at the same time, you can't look at it in isolation. Nick just mentioned the focus on redevelopments and intense asset management. And when you do redevelop, often there will be strategic vacancy. And so that may cloud the numbers some, but there's no question that we believe that we can continue to surpass and hold higher levels of percent leased than we have in past history.

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**Alan Roth** - *Regency Centers Corp - East Region President and Chief Operating Officer*

There is no ceiling, floors. And (multiple speakers) we are very comfortable and absolutely committed to also taking space offline when it's accretive to do the redevelopments as Lisa had mentioned. Good question.

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**Operator**

Jamie Feldman, Wells Fargo.

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**James Feldman** - *Wells Fargo Securities LLC - Equity Analyst*

Just following up on the second part of Cooper's question. So how do you think about the magnitude of potential for more larger-scale OP unit deals? It sounds like this one took years to come together. It was pretty unique in terms of the scale and quality. It would be helpful for you to frame how the transaction like this may be out there and how you balance taking the good with the bad and portfolio transactions?

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**Michael Mas** - *Regency Centers Corp - Chief Financial Officer, Executive Vice President*

Yeah. Let me start, Nick, and you can maybe speak to the specifics of the deal. It's really -- Jamie, it's really an M&A type of mindset when you come across these opportunities. I don't -- I don't want to do -- I mean, they don't come around that often, nor does large-scale M&A. And -- but the mindset is largely the same. We're partnering. There's a given and get. We are selling our portfolio. They are selling their assets. We are buying their assets, they're buying our portfolio.

We have -- we bring to that a mindset of what is our value, what is our NAV. We balance that with what is our perception of their value, their cash flows. And you move from there. By the way, those cash flows would include, in this particular case, the value of the total market debt that they're bringing to the equation as well. And just to reiterate, that's 4.2% coupon for 12 years, which has value to it.

And then I think to speak to the point that Nick made earlier, Regency can be a magnet, and we are very attractive to a seller because anyone with an UPREIT can provide tax protection. But the ability to partner with us and see the value of the combined organization going forward and the growth potential of not only those assets, but the balance of the portfolio, we think separates Regency as we continue to look for more opportunities.

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**Lisa Palmer** - Regency Centers Corp - President, Chief Executive Officer, Director

And I'd just add from the question about the -- how do we balance portfolio, it's what we always say. I'll just reiterate it, whether it's a single asset, whether it's a portfolio of five properties or whether it's a company is the transaction accretive to earnings? Is it neutral or accretive to our future growth rate? And is it neutral or accretive to the quality of the portfolio? And if it checks those boxes, we are -- we have the ability to execute and we do successfully.

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**Michael Mas** - Regency Centers Corp - Chief Financial Officer, Executive Vice President

Yes. And just -- sorry, just to come back, I want to want to get some points out there that hopefully are pretty clear to our disclosure. But we're getting \$0.01 to this year's earnings, which again is only a half year's worth of ownership.

So you double that, we're at \$0.02 accretion on a relatively small portfolio with respect to the quantum of Regency's assets. It just, again, speaks to the quality of this trade, I think it was a pretty special transaction. Very proud to have our new unitholders. I know they're proud of the outcome that we've accomplished together, and we're excited to see these properties grow.

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**Operator**

(Operator Instructions) Paulina Rojas, Green Street Advisors.

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**Paulina Rojas Schmidt** - Green Street - Analyst

I found it interesting that you increased your exposure to California already your top state by ABR. Do you have any strategic plans to increase or reduce exposure to other US markets? Or should I think about future acquisitions and really almost like 100% driven by granular trade area and property considerations?

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**Lisa Palmer** - Regency Centers Corp - President, Chief Executive Officer, Director

Paulina, let me try to address what I believe I heard with regards to really this portfolio diversification and exposure to markets. We really like the markets in which we operate. We really like the diversification, national exposure.

We have talked about that there are potentially some markets that we would like to expand into to grow further, like our acquisition in Nashville earlier this year, and we will continue to invest incrementally in the markets that we like is, again, if it checks all of those boxes. If we are able to find compelling opportunities that are accretive to earnings, accretive to growth, accretive to quality.

And again, we are confident and comfortable with our portfolio diversification. We don't have outsized exposure to any one MSA.

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**Operator**

Michael Gorman, BTIG.

**Michael Gorman** - *BTIG LLC - Equity Analyst*

Understanding it's a smaller component. Can we maybe just reverse the acquisition discussion and talk about the disposition guidance? And how we think about that \$75 million? And are those assets that are no longer accretive to Regency's growth profile? Or are these assets that have maybe moved out of the quality spectrum, whether it's demographics or geography or tenant base that's in those assets? Kind of how are you thinking about what's in that bucket and using that for a funding source going forward?

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**Michael Mas** - *Regency Centers Corp - Chief Financial Officer, Executive Vice President*

Yeah. Appreciate it, Mike. So the guidance is unchanged. We've -- for the year, we've been forecasting \$75 million of sales. We did drop the cap rate this quarter on those to 5.5%, now that we have some more clarity on the transaction.

But frankly, it's largely one asset where we see a lower growth potential than the balance of the Regency portfolio. And by the way, of the cap rate that we're disclosing, you can tell we're getting pretty full value for that. So call it, a flattish grocery anchor shopping center that we would be disposing of that we see, we just don't see the growth potential there any longer relative to Regency.

But the other 10 bps of the guidance would include smaller pieces of the portfolio that are just nonstrategic. So we picked up some small office buildings in the EVP portfolio that we are moving to dispose of, given that they just don't align with our strategy.

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**Lisa Palmer** - *Regency Centers Corp - President, Chief Executive Officer, Director*

And to reiterate what Nick said earlier about being in the position that we do not need to acquire anything to achieve our growth objectives given our exceptional development platform. We also don't need to sell anything. But when we have an opportunity to dispose of something that, as Mike said, either nonstrategic or the growth rate is not on par with what we expect for the whole portfolio and able to invest those funds accretively, we'll capitalize on that opportunity. We believe that it fortifies future NOI growth and always have believed that.

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**Operator**

Ronald Kamdem, Morgan Stanley.

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**Ronald Kamdem** - *Morgan Stanley - Analyst*

This is just a quick follow-up just on the acquisition environment. I have to see you guys have a large deal, a couple of your peers talked about activity. Just historically, cap rates have been really tight. Is this just a one-off? Or is this sort of a notable shift where you think over the next couple of years, there will be more sort of opportunities?

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**Nicholas Wibbenmeyer** - *Regency Centers Corp - West Region President and Chief Investment Officer*

Ron, I appreciate the question. This is Nick. Yes. Look, the reality is sellers come out when they see demand picking up. And so as I articulated earlier, there is demand for core grocery-anchored shopping centers from the investment community.

And so I do think that is bringing some sellers out that are testing that market. And so as we look at what's on the market right now, I would say it's up from a year ago. And we're a little bit in that summer low right now where people are going to wait until after Labor Day to call for offers. And I do think another group of assets will come out after Labor Day.

And so I do think we are seeing a marginal pickup in velocity. But as we've articulated on this call several times, we're going to chase the ones that make sense for us and lean in on those. But the good news is we don't have to find those to make our earnings growth that we're projecting.

**Lisa Palmer** - Regency Centers Corp - President, Chief Executive Officer, Director

Yes. To be really clear, while we say we don't need to, we like to because -- and we've been very successful. And if you look at our track record for acquiring compelling outstanding shopping centers that check all of those boxes. We have a cost of capital advantage. We have a platform advantage. And when we're able to find those opportunities, we've been able to execute successfully. And I expect that we'll continue to do so.

**Operator**

We've reached the end of the question-and-answer session. I'd now like to turn the call back over to Lisa Palmer for closing comments.

**Lisa Palmer** - Regency Centers Corp - President, Chief Executive Officer, Director

Thanks so much, Rob. Thank you all for your interest in Regency and have a great day. Thank you.

**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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