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Co. reported 2Q21 Nareit FFO per share of $0.99.

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Craig Richard Schmidt *BofA Securities, Research Division - Director*

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

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

Juan Carlos Sanabria *BMO Capital Markets Equity Research - Senior Analyst*

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

Mary Kathleen McConnell *Citigroup Inc., Research Division - Research Analyst*

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

Ronald Kamdem *Morgan Stanley, Research Division - Research Associate*

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

PRESENTATION

Operator

Greetings, and welcome to Regency Centers Corporation Second Quarter 2021 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.

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

Good morning, and welcome to Regency Centers' Second Quarter 2021 Earnings Conference Call. Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Jim Thompson, Chief Operating Officer; and Chris Leavitt, SVP and Treasurer.

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 is possible that actual results may differ materially from those suggested by the forward-looking statements we may make.

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

In our discussion today, we will also reference certain non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, which are posted on our Investor Relations website. Please note that we have also posted a presentation on our website with additional information, including additional disclosures related to forward earnings guidance and the impact of COVID-19 on the company's business. Lisa?

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

Thank you, Christy. Good morning, everyone, and thank you for joining us this morning. We are pleased to report another quarter of results reflecting strong progress toward recovery. The tide has continued to rise following the removal of most capacity restrictions across the country. Our portfolio of foot traffic is now back to at least 100% of pre-COVID levels in nearly all of our markets, and we've made meaningful progress on rent collections. Retailer demand is healthy. This is reflected in our strong leasing activity, and we're seeing fewer tenant failures and, therefore, lower move-out activity than we expected.

We acknowledge that we are not completely out of the woods yet. We are all keenly aware of rising virus cases in many cities across the country as we experience another wave of the pandemic. New mask and vaccine restrictions are emerging, with the risk of perhaps even the return of capacity restrictions in some markets. But with the knowledge and experience that we and our tenants have gained over the last 1.5 years, we feel good about where we stand long term and our ability to weather additional storms.

And importantly, if we do see new restrictions, we believe that, that impact will be short term. Our industry and specifically Regency's portfolio have proven its resiliency, and this is most evident in the meaningful improvement in our West Coast markets in recent months as all of our tenants were finally allowed to fully operate as the market opened up. I've said this before, and I'll say it again, the best shopping center assets will continue to thrive in the post-pandemic world.

On last quarter's call, we discussed pivoting to office. We are confident in our path to recovery, and our strong balance sheet and access to low-cost capital give us a competitive advantage in developing and acquiring on an earnings and quality accretive basis. We have a really successful track record in that regard. And so with this pivot, we started our multiphase Westbard project in Bethesda, Maryland, and we expanded our existing project in Richmond, Virginia, which I might add is experiencing robust tenant demand. Looking forward, we remain encouraged and excited about additional opportunities in our pipeline.

Earlier this week, we also purchased our partner's 80% share in our USAA joint venture, a great opportunity to allocate capital on an accretive basis into high-quality assets that we have known and operated for 20 years. We raised equity during the quarter through our ATM on a forward basis, funding this transaction as well as providing additional capacity for future investments. As always, we are active in pursuing and evaluating acquisition opportunities.

In today's transaction market, however, we do continue to see even greater competition for deals. There's been meaningful capital formation targeting high-quality grocery-anchored neighborhood and community centers as the investment market appreciates the demonstrated performance and resiliency of these high-quality assets. So as a result and as you would expect, we've seen continued compression in cap rates for these types of assets across all of our target markets.

Before I turn it over to Jim, I'd like to take just a moment to touch on something that's extremely important to Regency and to me. One of the highlights of the second quarter for us was the release of our 2020 Corporate Responsibility Report, which allows us the opportunity each year to showcase our leading ESG practices. We are proud of our accomplishments across all 4 pillars of our strategy, our people, our communities, governance and environmental stewardship. So please allow me this opportunity to share several highlights from this report and our progress over the last year.

And again, these are just highlights: the development and implementation of a more robust diversity, equity and inclusion strategy; a gender pay gap that is now essentially zero; impressive philanthropic efforts by our team members in what was a really challenging personal environment as well as professional; increased tenant and community engagement during the pandemic, for which we were recently recognized by ICSC with 3 MAXI Awards; further progress on Board diversity and refreshment; the introduction of an ESG metric for executive compensation; the issuance of our first TCFD report on climate change risk; and finally, outperformance in our reduction targets for greenhouse gas emissions, energy efficiency and waste diversion.

Strong corporate responsibility is a foundation of our company. It's ingrained in our culture. And no doubt, it's part of what makes us great. And just as we approach all aspects of our business, we look to continue to improve and evolve our best practices over time. Jim?

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

Thanks, Lisa, and good morning, everyone. We remain encouraged by continued improvement in operating trends in our portfolio, including increased foot traffic, higher rent collections and strengthening leasing activity. We took another big step in our recovery during the second quarter as many more operating restrictions were lifted, providing a necessary catalyst to convert many more of our tenants back to rent paying status.

While the progress and results are very rewarding, we realize it's not all clear sailing. We continue to monitor the implication of rising COVID case levels and implementation of mask and vaccine mandates in certain geographies around the country.

But in contrast to earlier periods of the pandemic, vaccines are now widely available. Consumers are resuming more normal behaviors, shopping at stores, eating at restaurants and working out at fitness clubs. As of mid-July, nearly all of our 22 markets are now at or above 100% of 2019 foot traffic levels. And after nearly 1.5 years of operating in this environment, many of our tenants have learned to roll with the punches, demonstrating resiliency and creativity in adapting to an evolving normal.

Moving to rent collections. We again saw improvement in all regions with Q2 and July collections both at 96% at this point. Our unresolved rent bucket continues to shrink. As tenants have been able to get back to fully operating, our teams have been successfully working to get them rent paying again. Our leased and commenced occupancy rates ticked up this quarter, reflecting reduced move-outs but also strong leasing activity, which I'll touch on. But more importantly, our net effective rent paying occupancy, which we discussed previously, is up over 150 basis points sequentially to north of 88%. We continue to believe this is the best indicator of our recovery progress.

We also had another strong leasing quarter, exceeding 2019 levels on both new and renewal leasing as our teams are working tirelessly to get vacant space backfilled to accommodate the demand we are seeing. We are pleased to see great activity across all regions, including the harder hit states out west. Our leasing pipelines look healthy for the remainder of the year, with active interest from tenants in categories such as grocery, medical, restaurants, fitness, pet-related uses, off-price, health and wellness and some traditional mall retailers like home, athletic, eyewear and cosmetics.

Although activity is strong, we are seeing some impact from rising material costs, labor shortages and permitting backlogs at local municipalities, all contributing to continued pressure on rent commencement timing. Our tenants are also experiencing inflationary cost pressures and staffing shortages in the normal course of operating their businesses. But we're hearing when we speak with our tenants that they are generally able to pass on many of these higher costs to consumers, especially in the trade areas that we operate in, reflected in strong sales among many of our grocery and restaurant tenants.

We saw improvement in rent growth in the second quarter as well as we are making fewer short-term pandemic-related concessions to bridge our tenants. We continue to push embedded rent steps to maximize revenue and cash NOI growth over the life of the lease. And our GAAP rent spreads are back above 10% and closer to our 15% historical average levels. As our leasing activities ramp back up, we also remain focused on maintaining a prudent level of CapEx spend.

Our positive momentum in leasing activity also extends to our end process, ground-up development and redevelopment projects. At our crossing Clarendon redevelopment in Arlington, Virginia, we're very excited to announce that we just signed a new lease with Life Time. This premier health and wellness club with a co-working component will take over 100,000 square feet of the 4-story Loft building, reducing lease-up risk by bringing the project to over 90% leased from 3% a quarter ago and providing an earlier-than-expected rent commencement date.

At the Abbot in Cambridge, Massachusetts, we have 4 signed leases and we've seen significant increase in office market tours now that restrictions have lifted, employees are returning to offices in Boston and students are returning to Harvard.

As mentioned on our last call, in the second quarter, we started Phase 1 of our mixed-use Westbard project in Bethesda, Maryland. The first phase of this project will include a new giant-anchored 120,000 square foot podium-style retail building with structured parking and about 100 senior living units being developed in partnership with a best-in-class senior housing developer operator.

Regency's net project cost for this phase will be about $37 million, net of land sale proceeds. We are seeing some modest impacts from higher construction material and labor costs, but our underwriting had cost escalations built in for that. And thus far, the impacts to our rejections have been minimal.

In summary, we have a lot of good things happening. We're very encouraged by the trends we're seeing and the progress we've made, due in large part to the hard work of our management, leasing and development teams in the field. Mike?

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

Thanks, Jim. Good morning, everyone, and thank you for joining us. I'll begin by addressing second quarter results and then walk through the changes in our full year guidance as well as the moving parts of the JV portfolio transaction and capital raise.

Second quarter NAREIT FFO was $0.99 per share, helped by several items. Uncollectible lease income was a positive $7 million in the quarter as reserves on current period billings of approximately $5 million were more than offset by the collection of 2020 reserve revenues associated with cash basis tenants of close to $12 million. You can see this breakout of our uncollectible lease income on our COVID disclosure, Page 33 of the supplemental.

As you may recall, our previous full year guidance range assumed about $30 million collection of 2020 reserves during '21, while we have already exceeded that as of quarter end. We also benefited from a higher recovery rate in the second quarter following a better-than-anticipated outcome from our annual reconciliation process. We do expect our recovery rate to revert back to more normal levels going forward. Most importantly, we are seeing higher-than-expected collection rates on our cash basis tenants of 86% in the second quarter. That's up from 78% in the first.

During the quarter, we raised close to $150 million of common equity through our ATM program on a forward basis at an average price of about $64.50 per share. We currently plan to settle in the third quarter roughly $85 million to fund the equity component of our recently completed USAA JV buyout and view the balance of the capital raise as capacity for future funding of investment opportunities. We can settle the remaining shares at any time before June of 2022.

The buyout of our JV partner's 80% interest in the portfolio closed effective August 1. As Lisa mentioned, this was a unique opportunity to invest in high-quality assets on a leverage-neutral and earnings-accretive basis. The cap rate was about 5.5%. In addition to the partial settlement of the forward ATM, funding for the transaction includes our assumption of the partner share of mortgage debt and $13 million of promote income received upon liquidation of the JV.

Turning to guidance, we point you to the detail in our earnings slide deck posted to our website. We've previously discussed the larger needle movers to our earnings. And they certainly continue to move in the right direction, resulting in another healthy increase to our full year expectations. The most meaningful change that we made was to our same-property NOI forecast, up 725 basis points at the midpoint, and we reconcile the components of these changes in our slide deck. Of this change, 225 basis points is attributable to an increase in our forecast for the collection of rent previously reserved in 2020. Our forecast for the year is now $45 million up from $30 million previously. Of the $45 million, as I mentioned earlier, we have recognized about $32 million through quarter end and have collected another $3 million in July.

The other 500 basis points of the guidance increase is driven by fundamental current year improvement, supported by higher collection rates from cash basis tenants and lower move-out activity, reflecting the progress we experienced through the second quarter and raised expectations for the balance of the year. Please also note that we've added the $13 million promote income tied to the JV portfolio transaction to our NAREIT FFO forecast, which will be recognized in the third quarter. We will not include this onetime transactional income in our core operating earnings metric.

While we have not yet moved any tenants back to accrual basis accounting from cash basis, we are continuing with our evaluation and expect a subset of tenants that have remained current on rent to qualify in the second half of this year. While conversions may have a positive impact on straight-line rent and NAREIT FFO, we have not yet included any of this movement into our revised guidance range.

From a balance sheet perspective, we remain on very solid footing as our free cash flows continue to grow meaningfully. Benefiting from a low payout ratio without having reduced our dividend, our leverage continues on a visible path back to pre-pandemic levels. We have cash on hand, full revolver capacity, no unsecured debt maturities until 2024 and balance sheet capacity remaining from our forward equity raise to be opportunistic.

As we have discussed previously, we continue to expect our recovery back to 2019 NOI levels by the end of next year on an annualized basis, primarily due to the time it takes for rent to commence on backfilling vacant space. So with every dollar of reserved rent that we are able to recover and with every tenant, we can convert back to rent pain rather than absorb the vacancy, the shallower the trough and the higher the level from which we will continue to grow.

With that, we look forward to taking your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Katy McConnell with Citi.

Mary Kathleen McConnell - *Citigroup Inc., Research Division - Research Analyst*

So first, just wondering if you can provide some more background on how the USAA transaction came about? And then how you're thinking about acquisition opportunities going forward?

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

Katy, this is Mike. I'll start, and I think Lisa will jump in to talk about forward opportunities. The transaction was presented itself, I mean, obviously, not too long ago. USAA is really a real estate adviser. They're representing a consortium of investors. So I think what they -- and to give you a little bit of history, that JV was formed in 2009.

So if you think about that buying opportunity, this was a really good opportunity for that consortium to crystallize a return. And we were able to take advantage of that. And as with any JV, whether single asset or portfolio, the partner is likely your best first option as a buyer. And we were there ready for that. We were very happy to buy in these properties. We've owned them and operated them for 20 years now, know them extraordinarily well. They fit in very nicely with the portfolio. I'd characterize them as very consistent with our high-quality assets and very happy to move forward with that transaction.

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

And just in thinking about forward, and I think I'll take you back 3 months when we talked about turning the corner, because that's really when we really had the confidence. And we talked about the pivot to offense, that we had a much clearer path to continued improvement, and we continue to see that, which is great.

And with that and free cash flow in excess of $100 million, the really strong balance sheet that we have, access to low cost of -- other low-cost capital, just as I said in my prepared remarks, we have a really successful track record in not just acquiring, Katy, but also developing. So using that access to capital and that low-cost capital is a competitive advantage to continue to have accretive investments going forward, and we're always looking.

Mary Kathleen McConnell - *Citigroup Inc., Research Division - Research Analyst*

Great. And then maybe on the development side, now that you've started the second phase of Carytown and the Westbard project, can you comment on how pre-leasing is going so far for the retail components? And then for Westbard, where you stand on future basis for resi as far as securing partners?

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

Yes, Katy, it's Jim. On Carytown I'll take that one first. We've had really good activity and a couple of executed leases, some names you may know, Torchy's Taco out of Texas has migrated to North Carolina and opening days in one of our other centers in that marketplace, have 100 people deep. So North Carolina people like tacos as much as they like barbecues, what it appears.

Also, we've got Virginia ABC Liquors and executed deal. Prospects, probably the most iconic high-end jeweler in the Richmond marketplace is in dialogue with us as well as Lululemon. So that gives you a flavor of the type of tenants we're talking to there.

As far as Westbard, we're very, very early, obviously. We've just started construction. We've got a ways to go. But we've had some good early dialogue with some tenants that have expressed interest. But we feel very confident that, that product is going to be very well received in the marketplace. As to the partners, we have continued dialogue with some folks that we've been engaged with for the last 2 years, and we're working towards finalizing agreements at this point on Phase 2.

Operator

Our next question is from Derek Johnston with Deutsche Bank.

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

So how have conversations gone with key political leaders in your markets, especially the West, given your exposure? I mean, I'm sure you guys have had them. Do you get a sense that they have learned from the shutdowns last year and are perhaps more comfortable with local retail preparedness and ability to maintain a safe environment for shoppers and tenants. Have any conversations giving you greater confidence in the officials and maybe their evolved possible handling of any pandemic-related spikes? Anything you could share would be helpful.

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

Yes. I don't know that I can speak to what political leaders may or may not do because that could change even regardless of what they say. I think, but just the confidence in what we have seen in terms of when markets are open and how our tenants, our retailers, our service providers are still operating safely, even when there were restrictions, when there were more protocols, if you will, that I do believe that, that has given the confidence to the tenants who have really big voices in their local communities as well, speaking to their -- to the local leaders and the political leaders.

It's not just the shopping center owners that are speaking. It's their real constituents that own businesses, operate businesses and live in the communities that have the loud voices. And I think that's what they're really hearing. So we do have confidence that -- and I mentioned this in my prepared remarks. Even if we do see increased restrictions from masking or vaccine restrictions or even potentially some new capacity restrictions, the better operators have learned, they've adapted. And we believe that we're going to continue to see improvement as we go forward.

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

Can we just, Mike, maybe run through the reserve collection assumption and better than guidance a little bit. I believe you collected $32 million versus $30 million we were previously expecting year-to-date. And then the positive change to $45 million in recoveries throughout the second half. It indicates a run rate of around $6.5 million per quarter in the second half.

Should we anticipate a higher collection rate in 3Q for modeling versus 4Q? Or should we kind of just balance it out in the second half of the year? And clearly, it seems like there's an opportunity to hopefully surpass on the $45 million level? Any color is welcome.

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

Yes. I appreciate it, Derek. And I'm going to do the best I can, but it's very difficult to predict the timing of those collections. And we did offer the $3 million in July. So at least we have that kind of larger pop that everyone can put into their models. But I think beyond that, my advice would be to kind of consider it on a straight-line basis as we finish out the year. We do obviously feel confident in that $45 million midpoint number.

It can move around within the range. We could collect a little bit more. We may collect a little bit less. It is an unpredictable -- it is a challenging number, obviously, to get our arms around given the changes we had throughout the year.

As I think about the same property range, just to bring it up a little bit and maybe these bookends will be helpful for everyone, is we -- the midpoint of the range is essentially assuming that, that net effective rent paying occupancy level, which we described as about 88% today, just continues to grind higher through the balance of the year. So said another way, cash basis tenants, we are anticipating a slow northward trajectory on their collection rates. They're at 86% today. That's 20% higher than they were coming into the year in January.

So we've had a remarkable level of increase there. I said this on last quarter's call, I just reiterate it. If you -- to think about that range, 1% collection rate on our cash basis tenants is worth about $3 million on a full year basis of income. So that can also help us -- help everyone think about the tolerances in the range. And I think with that book end of the 1% equals $3 million. I think with the $45 million of which all but $10 million has been accounted for and collected at this point in time, I think with those 2 pieces, we're just trying to be as transparent as possible. That will help everyone think about that full year range that we've offered.

Operator

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

Craig Richard Schmidt - *BofA Securities, Research Division - Director*

I know you've been touching on external growth and its acceleration. But with acquisitions, you have the lower, more competitive cap rates. With redevelopments, you have higher construction cost, labor and material. I'm just wondering which of those levers is the most appealing in terms of driving external growth, acquisitions or redevelopment?

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

We need an end, Craig, because I'd love to say all of the above. We've always said this, that's very consistently that if you make me choose, clearly, I'm going to choose the one that has the higher returns. And so the best use of our capital is on redevelopment and investing back into assets that we know and we are able to -- that we've owned and operated for quite some time and get really accretive returns. But with that said, I do, I like the end word, and I'd like to be able to say that we can do all. To the extent that we can leverage our platform, our knowledge in the markets and our low cost of capital and add to our portfolio base high-quality assets that are accretive to our quality and accretive to earnings that allows us to then further grow our cash flows and further grow NOI, I'd like to do it all.

Craig Richard Schmidt - *BofA Securities, Research Division - Director*

And then just looking at the percent leased at Costa Verde at 66%, I assume that retailers are interested in redevelopment/development and pursuing those as new location opportunities?

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

Yes. I mean Jim can add some color if he'd like, but Costa Verde is an exceptional location and real estate asset. And the fact that we have the ability to add as much value as we're going to add there really speaks to that and validates that. There will be -- when we do commence the full redevelopment, there already is and will continue to be a tremendous amount of demand for the retail space there.

Craig Richard Schmidt - *BofA Securities, Research Division - Director*

Great. And then one last question. I don't know if it's mix related, but I'm wondering why the new leasing spreads on new leases is flat in 2Q '21.

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

Craig, it did have a little bit to do with mix. We had a heavier than normal mix of shops versus anchors this quarter. But importantly, I think I'd like to stress the trend line is -- for spreads is really moving in the right direction, as are all our operating metrics. Our philosophy on prudent CapEx spend certainly impacts this metric.

And having said that, I'd say our CapEx as a percent of total NOI tends to be at the lower end of the peer group, which does allow us to maximize free cash flow. As we sit there and look at our business and try to make asset management decisions, we look at total rent. And total rent includes, obviously, these initial spreads, embedded rent steps which we continue to be very successful in achieving, growing expense recoveries which we, I think, do very well year in, year out and continue to lease up our space back to historic levels. I think in combination, all those actions are going to result in the larger objective of creating sustainable NOI and earnings growth in the long run.

Operator

Our next question is from Greg McGinniss with Deutsche Bank.

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

Me, I guess, Scotiabank. So you've shown a sequential lease, occupancy growth, accelerating leasing volumes. What are some of the tailwinds and maybe headwinds to tenant retention and demand? And how should we think about the cadence of potential recovery in economic occupancy or the net effective rent paying occupancy, I guess?

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

I'll start with our goalposts, which we did reference on the call. But we continue to see a return or a recovery to 2019 levels of net operating income in the -- on an annualized basis, sometime, I'd say, back half to the end of 2022. We're very hopeful, Greg. I mean we're working hard to pull that forward.

But one of the challenges there, if it is a headwind or it's just a threshold issue is, we lost about 200 basis points of occupancy as a result of the pandemic. We need and we are making progress leasing that up, but that does take time. And it's pretty visible to see how much time that takes to lease, to build out, to commence rent. So that -- to bring that forward meaningfully is more challenging, but we are working as hard as we can to do that. Maybe Jim can talk a little bit about some of the headwinds that he sees from the operator side and the leasing activity.

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

Yes, Greg, before I go on the headwinds, I think I would like to touch back on the activity we're seeing today is very strong across all regions. I think when I look at the pipeline and look forward, it continues to be robust. So I think -- from a tailwind standpoint, I think the leasing opportunity is in front of us, and we're going to take advantage of it.

As Mike indicated, we've got more vacancy than we've had historically. So I think we've got product, we've got demand, and we're going to make those 2 things turn into rent-paying occupancy. Headwinds, obviously, are what we've talked about. I think there's labor issues, there's pricing, supply chain issues. How those shake out, we don't know. I will say today, the tenants, the retailers are dealing with that. A lot of them are able to pass through those costs to consumers at this point. So it really feels like things are blowing our way right now. They're headwinds, and we're watching them, but they're not stopping progress.

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

I think that's the best way to think about it. If you think about -- we had -- headwinds were far greater than tailwinds in 2020. And it has flipped. And the tailwinds are clearly stronger than any headwinds that we're facing right now.

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

So maybe to dig into that a little bit more, and I appreciate the color. So our tenant watch list analysis highlights a much improved environment compared to the last few years. I'm just curious what is your view on that, how is your watch list exposure improve over the last 18 months? And what are you still viewing as maybe some of the higher-risk tenants or industries?

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

Let me start with the watch list, Greg. I think our view would mirror yours. And as we look back at our watch list over years and consecutive quarters, it's meaningfully improved much by subtraction, right? So we've had a lot of tenants who have kind of worked through the system and have filed bankruptcy and moved out of our centers and we are finding opportunities to re-lease those spaces.

Those that have remained, many of them have improved their credit quality, whether through operations, where this pandemic may have been a tailwind for certain necessity-based retailers and essential retailers or through access to capital markets, whether privately or publicly. There's been a lot of just improvement from a credit quality perspective there. So our view is much like yours, a much different landscape and an improved landscape. Jim, anything on the...

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

Not really. You hit it on the head, Mike.

Operator

Our next question comes from Juan Sanabria with BMO Capital Markets.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - Senior Analyst*

Just hoping we could talk a little bit about just market rents and how those have trended for, I guess, both the anchor and small shop space just generically across your portfolio, and whether or not rents are truly in fact, rising? And if so, if you've seen any degradation in maybe inferior space as people look to improve the quality of where they're located and stronger -- getting stronger. But just curious on what the actual market rent growth has been maybe over the last 6 months relative to 2019?

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

Well, I would -- I guess I would tell you that from my seat, it appears market rents are really pretty steady from what we've seen before, pre-pandemic. Strong centers attract good retailers and good retailers want to be next to other good retailers. So it's a system we're used to thriving in. We're, as I said a minute ago, we've got more space than we've had before, and that is generating a lot of interest and activity from retailers who want to be in our product type. But to answer your question simply, I think market rates are what we were used to seeing pre-pandemic in general.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. Great. And then just on the joint ventures, any other opportunities with existing partners to buy out their interest in over the next 12, 18 months? Or any funds maturing or things like that where you could have some goalposts that are -- you can see that you could maybe convert on?

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

Juan, all the ventures are long lived, so there's no finite life to any of them. So there's nothing kind of contractually that would bring an opportunity to the horizon. As we mentioned, this was a unique opportunity with a particular joint venture and a group of owners. That could change for our other JV partners going forward.

But at this point in time, they are all very well committed to the space. They enjoy their allocation to grocery-anchored retail. Their portfolios are performing well, very consistent quality to Regency's overall quality. So we're there, and we could be there as a potential buyer as we have with USAA. But it's going to take a willing seller at this point. We don't have that right now.

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

And I think that, that's really probably one of the most important points that if they do become a willing seller, we have the capacity and the ability to act.

Operator

Our next question comes from Richard Hill with Morgan Stanley.

Ronald Kamdem - *Morgan Stanley, Research Division - Research Associate*

You got Ron Kamdem on for Richard Hill. Congrats on a quarter. Two quick ones. Just on the foot traffic, impressive recovery back to pre-COVID levels. Just curious, is there any discernible change in spending patterns? Are people spending more? Is it a different demographic base? Just sort of any curious if you've seen anything different on the spending path and intention from now versus pre-COVID?

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

I think initially, what we were seeing were bigger -- fewer baskets but bigger baskets. So people were, as I've described, they were probably trying to come less often but buying equal or greater. I think -- my impression is that is leveling out to kind of -- the foot traffic obviously is coming back, so I think the basket size is likely coming down slightly.

But when you look at the sales of grocers and when we listen to all the teams report quarterly activity, the number of restaurants that across the country were really generating significant increases above 2019 levels during this summer. It was impressive. So it clearly, to me, any way, indicated that the traffic is coming back. And they're not just showing up and walking through the center, they're buying. So we're pretty happy with what we're seeing.

Ronald Kamdem - *Morgan Stanley, Research Division - Research Associate*

Great. And then my second question was just going to the guidance change. I think the commentary from the cash basis sense is pretty clear. But just a little bit more color on the lower move-out activity sort of -- what did you see in the first half of the year? And maybe what are you assuming in the second half? And how does that compare to a normalized year?

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

I'm going to limit my comments to net effective rent paying occupancy, run. Really, we don't see a better measure for '21 performance than that. And the reality is because the uncollectible leasing component, so the inverse of our collection rate, that's the biggest needle mover in the numbers.

At the same time, we were gratified to see higher levels of leasing activity and forecasted lower levels of move-outs. So that's going to speak more to our belief that we will continue to grow into '22 and beyond. But from a -- giving guidance on where we're in from a percent lease perspective, I think we're going to limit it to just net effective rent paying occupancy today is 88% or so. We think that will continue to grind higher through the balance of the year.

Operator

Our next question is from Mike Mueller with JPMorgan.

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

Yes. Your development, redevelopment pipeline is very heavily skewed towards redevelopment. I'm just curious, is there a shadow pipeline of new opportunities that we could see start off over the next few years?

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

Yes, Mike, absolutely. As the world recovers, there is an appetite from the grocery sector for growth. We're certainly in tune with that and working hard to locate sites. Our shadow pipeline is building, in my opinion, nicely. And we're talking to the type of traditionals and grocers that we are historically used to doing business within our portfolio. So yes, we feel pretty good about what we're seeing out there from an activity standpoint.

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

And Mike, you've heard us speak to that before, right? Development is not a switch, you don't turn it on and off. And even throughout 2020, while we may have paused spending, we did not pause advancing the ball on projects we are already working on. And the team was working really diligently to ensure that we continue to move those forward. So we do expect that you'll continue to see that shadow pipeline convert to a real in-progress pipeline.

Operator

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

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

Given consolidation in the shopping center space, does having 2 larger peers in the space changed the competitive landscape? Like maybe in terms of acquisitions or conversations with tenants from a leasing standpoint?

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

I'll hit from the competition from acquisitions, and I'll let Jim touch on leasing. I don't believe that it does. And the acquisition landscape has always been competitive regardless of the size of those competitors. I mean, there are times depending upon which market that you're -- that we're looking in, we could be going up against some of our larger public peers. Or we can certainly be going up against smaller, and then also private capital as well. The competition is really coming, and the capital for investing in high-quality grocery-anchored shopping centers is really coming from many sources, small, large, private, public. And from a leasing...

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

From a leasing standpoint, I'd...

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

The quality of the asset...

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

The quality of the asset, it really does get down to the individual asset. And so I don't think the competitive set changes, quite frankly, from an owner's perspective.

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

And then, Mike, relative to your comments about cash basis going back to accrual potentially benefiting the second half of '21 but not being factored in estimates in your forecast, what's the best way to think about the magnitude of the potential benefit? Is it like a couple of pennies or a far greater slug like the benefit cash basis tenants helping 2Q?

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

Linda, I appreciate the question, believe me, and -- it's unfortunate that we're in this position of the accounting requirements, and it is providing volatility and potential for volatility in our FFO guidance and forward-looking. But I can't -- it's equally hard for me to give you an estimate there.

The best we can do is be as transparent as possible, which includes really 2 things. One, is likely that some tenants will flip back to accrual accounting this year. And as I talked about last quarter and then this, there's about 13% of our ABR that's current on rent -- that is currently classified as cash basis tenants. So that would be an indicator of how large that potential population could be.

And I'm not saying that all of those will flip in because we are setting pretty high thresholds and standards before we will convert a tenant from cash basis to accrual. And then lastly, let me just add, this is why we continue to report on and use core operating earnings as an earnings metric. We are eliminating the impact of the noncash. This is how we're running our business. This is how we talk about making decisions internally. This is what we've talked to our Board about. We continue to believe that, that is the best operating metric to keep a finger on the pulse of our success.

Operator

Our next question is from Wes Golladay with Baird.

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

Can you talk about the Sears you sold this quarter? Did you get credit for the entitlements you had in place? Or was this something you were still entitling?

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

Thank you. Hancock.

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

Hancock. I'm sorry. Yes. We were going down the path early on, on the Sears building, we determined that the alternative use other than retail was probably higher and better use. So we absolutely did go down the path of entitling for office. And that's the direction we were headed. We ended up engaging with an office/medical user, which really wanted to be an owner versus a lessee. So that was the pivot we made.

We're looking to transform that asset into the highest and best value we could, and we determined that selling to this end user was the best way for us. The good thing is they're still a neighbor. They're going to be generating high daytime pop traffic for us or our soon-to-be redeveloped ATB expanded store. And so it's very good win-win for us. We sold an asset to a great operator, and they're going to be a terrific neighborhood.

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

Got it. And then you mentioned more capital coming into the space, looking at shopping centers. Would you look to do more joint ventures or more with your existing partners on the acquisition front?

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

I mean, we've always spoken about our joint ventures as joint ventures will serve the purpose of access to capital, which knock on wood, we don't need right now from them. Or access to expertise, there could perhaps be some scenario where that's the case, but also that's probably also unlikely. More of the opportunity will come in, it's actually access to properties or access to actual opportunities. And so to the extent that a joint venture partner allows us to have access to an opportunity that we may not otherwise have, then absolutely, we would entertain it. And that's how we think about it.

Operator

We have reached the end of the question-and-answer session. At this time, I'd like to turn the call back over to Lisa Palmer for closing comments.

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

Thank you all for joining us on a Friday. I appreciate your time, and I also do want to just give a quick shout out to the Regency team. And thank you for a great quarter and great results. And everyone, have a nice weekend.

Operator

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