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Regency Centers Corp. (REG)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Regency Centers First Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host, Laura Clark. Thank you. You may begin.

Laura J. Clark

Vice President, Capital Markets, Regency Centers Corp.

Good morning, and welcome to Regency's first quarter 2018 earnings conference call. Joining me today are Hap Stein, our Chairman and CEO; Lisa Palmer, our President and CFO; Mac Chandler, EVP of Investments; Jim Thompson, EVP of Operations; Mike Mas, Managing Director of Finance; and Chris Leavitt, SVP and Treasurer.

I would like to begin by stating that we may discuss forward -looking statements on this call. Such statements involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements. Please refer to our filings with the SEC, which identify important risk factors that could cause actual results to differ from those contained in forward-looking statements.

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

Before turning the call over to Hap, I would like to highlight two additions to our supplemental. First, the enhanced disclosure of leasing capitals on page 19. And second, an added page that outlines the components of NAV on page 30. In addition, we have added a section to our Investor Relations website for fixed income investors that features a fixed income quarterly supplemental. We hope that you find these enhancements valuable.

Hap?

Martin E. Stein

Chairman & Chief Executive Officer, Regency Centers Corp.

Thanks, Laura. Good morning, everyone. Though constant change in the retail business is nothing new, the imbalance in divergence between thriving, surviving and losing retailers continues to accelerate. While the heightened store closures of retailers have suffered from a combination of weak merchandising, poor service and overleveraged balance sheets are getting a lot of well-deserved publicity, what's not getting the appropriate amount of attention is the success of many retailers.

All of the evidence clearly demonstrates that physical stores will remain a critical component for successful operators. This includes digital retailers that are investing heavily in bricks and mortar, and expanding that platform as evidenced by Amazon's purchase of Whole Foods last year and its recently announced partnership with Best Buy.

Winning retailers are continuing to report strong results, offering their customers compelling value, service and experience, investing in technology and, yes, expanding into new brick-and-mortar locations. It's rarely reported that, last year, there were roughly 4,000 more store openings than closings across almost every category except for department stores. Publix opened over 40 new stores and redeveloped another 132 last year. This year, TJX plans to open more than 170 locations; Ulta, 100 stores; and Starbucks, over 900; and these are just a few examples.

Although disruption and change have forever characterized the world of retail, the importance of having stores conveniently located to neighborhoods and communities with substantial purchasing power will remain relevant. This is why through this accelerating retail evolution, Regency is well-positioned because we provide one of the critical ingredients of what retailers need to be successful.

This is evident in the ongoing performance of our portfolio and company. Year-to-date same property NOI growth was 4%, occupancy is nearly 96%, Regency's in-process developments and redevelopments continue to perform well. Four premier centers were acquired. We executed on our share repurchase program and successfully completed a 10-year bond offering and expanded our line of credit.

Ongoing cumulative impact of our capital recycling program enhances the quality of our portfolio through sales, value-add development, redevelopment and acquisitions, ensuring we own the must-have locations.

Most importantly, especially in this environment, our talented team executes our plan while we preserve our conservative balance sheet. We are confident that Regency's unequal combination of strategic advantages will enable us to meet the challenges of the ever-changing retail environment, and grow earnings and dividends by an average of 5% to 7% which will approximate a 10% total shareholder return over the long term. Jim?

James D. Thompson

Executive Vice President-Operations, Regency Centers Corp.

Thanks, Hap. Regency's pre-eminent portfolio continues to demonstrate impressive results despite challenges in the retail landscape. Even with decisions and rent commencements taking longer as retailers more aggressively negotiate terms and carefully evaluate impacts on existing locations, our high-quality portfolio is more than holding its own at nearly 96% leased.

In addition, new rent growth was 15% for the quarter. We continue to have success executing annual rent bumps, setting the table for future same-property NOI growth. Our annual rent increases on all leasing activities are averaging nearly 2%. This quarter, we did experience a sequential decline in percent leased in the same-property portfolio. This decline was expected as a result of seasonal move-outs, as well as strategic anchor re-leasing, enabling us to re-merchandise our centers with top brands, including Whole Foods, HomeGoods, and Ulta.

Move-outs still remain at very low levels. The impact from bankruptcy and retailer closures continues to be minimal. We had no southeastern grocer locations on the closure list and our five locations, which are significantly below market, are expected to remain operating.

Turning to Toys, as a reminder, we had five locations which represent 30 BPs of pro-rata annual base rent. We have recaptured four of our five locations, one of which we were the winning bidder at auction, and the fifth is awaiting final auction in early June. We have very solid backfill prospects that include HomeGoods, Nordstrom Rack and Burlington, as well as Publix and Whole Foods.

I'm very pleased with our ability to regain control of this real estate and the enhancements these re-merchandizing opportunities will offer our shopping centers going forward.

Lisa?

Lisa Palmer

President & Chief Financial Officer, Regency Centers Corp.

Thank you, Jim. Good morning, everyone. I'll start by providing an overview of this quarter's balance sheet and capital allocation updates and then, turn to same-property NOI and earnings guidance.

This quarter, we further enhanced our already strong balance sheet. We achieved very attractive pricing on our $300 million unsecured bond offering and also completed a credit facility recast with an upsize to $1.25 billion. This further expands our financial flexibility. It is this ongoing fortification that has and continues to position Regency to weather future challenges and profit from future investment opportunities.

In regards to the future investment opportunities, our development pipeline remains solid. However, we did revise development starts guidance to reflect the push and timing of two projects that we now expect to start in 2019.

Our updated acquisition guidance reflects the four premier acquisitions closed year-to-date with the actual cap rates on those closed transactions. Disposition guidance was increased as a result of our $125 million share repurchase activity. As we mentioned on our previous call, repurchases are a component of our funding strategy and any repurchases will be leverage neutral.

As a reminder, that strategy is to sell 1% to 2% of low-growth assets annually, then together with free cash flow which approximates $150 million this year, investing that capital in outstanding value-add developments and redevelopments, high-growth acquisitions or our own stock at compelling pricing.

Turning to same-property NOI. I'm extremely gratified by another strong quarter of same-property NOI growth of 4%, driven primarily by base rent growth. Performance in the first quarter was slightly better than expected and we have therefore revised our same-property NOI guidance range to 2.40% to 3.25%.

Consistent with what we previously communicated, we feel it is prudent to maintain a conservative approach for potential additional retailer fallout. Therefore, as a result, we are maintaining our projection for higher move-out levels that experienced last year. In addition, a deceleration in the positive impact coming from redevelopments in the second half is contributing to a moderation in same-property NOI growth throughout the rest of the year.

And now, turning to earnings guidance. Operating FFO guidance was increased to recognize the slightly better performance in the quarter, and NAREIT FFO guidance was revised to reflect some non-comparable items that will occur in the second quarter. These include the one-time payment for the early debt redemption associated with our bond offering and a $1.7 million termination expense to recapture the Toys "R" Us lease at auctions.

These charges will be offset by more favorable interest rates on the new bond offering and the requirement to recognize income from the non-cash, below-market rent associated with the Toys "R" Us leases that were terminated.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Samir Khanal with Evercore. Please proceed with your questions.

Samir Khanal
Analyst, Evercore Group LLC

Q

Good morning. Good morning, Lisa. Can you provide more color on the development starts? I know that went down by $50 million.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Hi, Samir. This is Mac. I'd be happy to take that question. As we mentioned, we had two projects that we've been pursuing. The entitlements for both of those did not come to – or not going to come to fruition to this year, so we pushed those out to next year and that's the simple explanation for the reduction in guidance for 2018 versus 2019.

Samir Khanal
Analyst, Evercore Group LLC

Q

But, generally, I mean I just want to make sure that – you haven't seen any sort of pullback on retailers committing to new projects sort of given the headwinds we face on the retail side, right? I mean it's not like these guys are suddenly getting cold feet and are not committing to projects. That's not the case?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

No, that's not the case. We're very pleased with the amount of activity that's out there. There are many anchors including grocers, which most of our projects have – are anchored by a grocer. If you look at Publix, Wegmans, H-E-B, Sprouts, Lucky, there's a healthy list of anchors that are out there expanding within their existing markets and often pushing into new markets as well. So, we haven't seen that change.

We also feel confident in our ability to continue with our development program. And that will primarily come from three sources: one, within our own existing portfolio, so projects such as Market Common Clarendon, which is Arlington. In that case, for example, later this year, we'll start the redevelopment of the office building.

Costa Verde is another example of a project that we own in La Jolla where we're planning a long-term redevelopment that will start in a few years. But plus also the Equity One properties provide some very unique redevelopments and we're executing on those as well.

And then lastly, as we pursue new opportunities such as Town 'n' Country that we talked about at the Investor Call. So, we think our platform's very uniquely positioned to allow us to capture development and we think there are lots of very compelling opportunities out there.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

And, Samir, one of the other benefits that Mac mentioned is that it appears and all indications are that Whole Foods is back expanding at a pace relatively similar to where they were several years ago.

Samir Khanal
Analyst, Evercore Group LLC

Q

Okay. Thank you. And then I guess my second question is on the cap rates for the disposition pool. I know they went up by 25 basis points. So, what's really the function of that? Is it sort of interest rates moving up or is it, sort of, you're digging into sort of the non-core or lower-quality assets in your portfolio to sell?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Well, definitely, what we do sell are non-strategic, non-core assets. So that's definitely part of it. And as the pool of properties change, we're constantly re-evaluating which ones make most sense to sell at which time. We looked at this pool and we increased that.

And this isn't new news, but we've said over the last plus or minus nine months that cap rates on non-core, especially secondary and tertiary markets, have expanded roughly 50 basis points. But we still see adequate market demand and multiple bidders to allow us to execute on our disposition plan.

Samir Khanal
Analyst, Evercore Group LLC

Q

Okay. Thanks for the color, guys.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thanks, Samir.

Operator: Our next question is from Craig Schmidt with Bank of America. Please proceed with your question.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you. Lately, there's been a spread between anchor occupancy between you and some of your peers. You've held up better. I just wonder, do you think you can maintain this going forward? It sounds like you're still a little bit cautious on store closings, but do you think you can maintain this positive spread that you have kind of demonstrated in the last two years?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Hey, Craig. It's Lisa. I mean, no promises, no guarantees, but we feel really good about the quality of our portfolio. And the fact that we've been very disciplined since for as long – really, for as long as I've been at the company, so for 20 years, really disciplined about capital recycling and portfolio enhancement.

So you've heard us say that we don't – we believe that that kind of gap, if you will, is clearly by design and by the actions that we've taken really for – again, for as long as I've been at Regency and really focusing on continued capital recycling year in and year out. And it positions our portfolio at the high end of the quality spectrum, which allows us to slightly outperform when it comes to anchor closures.

I think, again, as you've heard us say, our strategy – our point of view is that there's going to be continued store closures. We expect that. It's incorporated into our guidance this year. But we also expect that with the quality of our portfolio, our strategy is to own the must-have locations.

And when stores are closed and retailers are shrinking their actual store base, they're still going to keep some stores open. And our strategy is to ensure that we own those locations that they're going to keep open and not only keep open, but be highly productive.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Or in the case like Toys "R" Us where they are fully liquidating, we'll be able to replace those locations more times than not with better retailers.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Or bad news is good news.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Yes.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

I'm just wondering also, though, I mean, you seem to have less exposure to the Sports Authorities and the Toys of the world. I mean, is that you preparing your portfolio to remain strong and avoid overdependence on tenants you're concerned with?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

I mean, again, I think it comes back to the very consistent capital recycling. So, yes, when we're looking at our portfolio and we're identifying properties for disposition, that's certainly something that we discuss.

We're looking at – and we've been wrong in some cases. We're not going to be perfect. But we like to try to get ahead of what we believe may be potential fallout in the future. And we're not perfect, but we do like to say the fact that we've had limited exposure is by design. It's not by accident.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

And then there are cases in for instance and Jim, you can comment on this. We have a Toys box that we bought in Aventura and I think it's going to be – the bad news there is going to be good news. So either we're going to minimize exposure to those retailers that are struggling. But also in certain cases, we've got a box with a struggling retailer or a potential losing retailer where we think that there's a meaningful opportunity to upgrade the merchandising and often from a risk standpoint.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.
A

I mean that is also the case. It's not as if we didn't – obviously, we have Sports Authority. We have Toys"R"Us. We were able to re-lease those pretty quickly as a result of the quality of the real estate.

James D. Thompson
Executive Vice President-Operations, Regency Centers Corp.
A

Yes. I think the bigger issue is the quality of the real estate, we are not driven by tenancy from a long-term perspective. And as I had mentioned, the average share of lease we bought out of – at the auction out of bankruptcy, outstanding location just south of the Aventura Mall in Miami with frontage on Biscayne Boulevard.

We absolutely love this trade area. As you recall, we have a recently completed redevelopment of a Publix just north of the Mall. We have extremely deep tenant interest in this site and we're very, very excited about the opportunity to redevelop this shopping center with this adjacent – the adjacent shopping center with Toys box on the end. So again, it's turning bad news into good news and very accretive returns.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch
Q

Okay. And then it seems like we're on the cusp of kind of accelerating mix use and densification redevelopment opportunities. Have you hired anyone new to help you in that area or do you feel like you have the team in place?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.
A

Yes, this is Mac again. A couple of years ago, we actually – we saw this, I'm not sure I'd call it a trend, but we saw this shift occurring and we hired two really important people as part of our team. One is a gentleman named Rafael Muñiz who's our Senior Vice President of mixed-use. He comes from a multifamily background and then also we've hired an in-house architect to help us really push our designs to make sure that they are more flexible and they incorporate the ability to add densification later.

So those are two big hires and then just as we have natural turnover, we're looking for more well-rounded people who can understand all product types and understand really the future of where retail is going. So these are incremental changes, but we've been – this is not a new thing to us. We've been doing mixed-use projects for really for 15 plus years.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

And our focus will continue to be to have the capability in mixed-use to in effect be able to harvest the retail opportunity within those developments or within our existing portfolio. Obviously, if the – it may make sense to partner with an office or an apartment developer with expertise in capital. But, our core capability is retail and I think we've got the expertise to take advantage of those opportunities that are there.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch
Q

Great. Thank you.

Operator: Our next question is from Jeremy Metz with BMO Capital Markets. Please proceed with your question.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Hey, good morning. In terms of the same-store NOI guide, you started the year feeling confident in the upper half of that range. We've obviously seen an acceleration of closings or at least potential closings here, granted the timing may be an offset, but wondering if you still feel just as confident today in that upper end?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Yes. I'll reiterate what I said on the call, add a little bit more color. First, the first quarter came in slightly better than expectations, which is reflected in the raise on the low-end. And we still believe that it's very prudent in this environment to maintain a conservative level of move-outs in our projections. So, we're projecting move-outs to be more similar to 2016 than 2017.

Again, that's what's incorporated into our guidance range. With that said, I'll repeat that the first quarter was slightly better than what we had expected. So reading through that, through to that, then you would expect that we still feel really good about achieving our strategic objectives of 3% plus and it's what we're really focused on.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Okay. Sticking with Lisa and one for Jim. I just wondered if you're seeing a shift in tenant minds in terms of how they're thinking about spaces or willingness to make some long-term decisions here. And maybe you can comment separately on the tone from your lease discussions with both the shop and box spaces?

James D. Thompson
Executive Vice President-Operations, Regency Centers Corp.

A

Jeremy, we're really not seeing a major shift in tenant desires for term changes and things like that.

We see our pipeline continues to be very robust. We continue to upgrade the merchandising mix as we recapture space. When I look out at the landscape as to the basic health metrics that we look at – receivables, bad debt, rent relief request – those are all well within historical norms. So as I look at the landscape, I feel very comfortable and confident that we're in good shape today.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Okay. I just have one last quick one on the development starts. The shift here, you talked earlier about no change to the tenant side of that. But have there been any changes in the mindset or demand from municipalities on adding more retail that's driving any of the entitlement delays here?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

This is Mac again, Jeremy. It's not a significant shift. I mean, generally, in the affluent communities where we operate, cities are very engaged. And so, on one hand, cities in most cases promote retail because they need the sales tax.

At the same time, they're also pushing for quality and design and things that are important on the local level. So, not a significant shift there where we generally have great success getting our projects approved. But there's no shift in momentum either way. It takes time and we feel we do it the right way and ultimately, create projects that are very well received in the community.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Thank you.

Operator: Our next question is from Christy McElroy with Citigroup. Please proceed with your question.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, everyone. Just to follow up on some of the comments you made on capital allocation and in the context of the buyback activity in Q1, how aggressively are you going after acquisitions today, if at all?

It looks like there's been a little movement on cap rates for what you're buying. But is the strategy right now to sort of just hold off on any additional acquisition and focus on buying back stock, and then sort of waiting for potentially even more cap rate movement and more opportunity, or are you still looking at deals there?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Number one, I would say, we're always in the market looking. But having said that, at this point in time, as indicated by our guidance, where we are in relationship to our full-year guidance, we've kind of basically hit the pause button. And I'd say that also – and we hit the pause button and started – it made more sense to sell more properties and buy back stock.

However, given where we are, we've still got a lot of dispositions to do, as Lisa indicated. Our overall capital recycling basis is to be leverage-neutral. So, until we make more progress on dispositions, then we'll figure out, do we want to buy back more stock or just kind of hold at that point in time because one benefit that we've had from our sales to-date and what we're projecting is we're able to sell those properties on a tax-efficient basis. Whether we'll be able to continue to do that will be an important component. What's the impact going to be on earnings will also be something that we're looking at.

But, right now, I think we're consistent with free cash flow, sales on the upper end at 2%, purchasing about $150 million of high-quality acquisitions, and bought back $125 million of stock. And once we're further along on our – getting closer to the $275 million and more visibility than we make on that, then we may make a decision to further potential investments at that point in time.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

I mean, obviously, that's current year how we're thinking about it and maybe it might be good just to remind everyone, because we live and breathe it every day. So I don't want to take it for granted that everybody understands kind of how we approach the business and our business model.

Hap said our goal is to recycle 1% to 2% a year. It goes back to my answer to Craig. It gives us the ability to continually enhance the quality of our portfolio. It's been part of our business model and will continue to be part of our business model.

And the fact that we, as Mac mentioned, have unequal development capabilities, the way we think about it is we're taking that 1% to 2% property sales proceeds with our free cash flow and that's our source of funds. That's assuming we can't tap the equity market.

That's our source of funds and we are investing all of those dollars combined into development and then into acquisitions or, in this case, our stock repurchase. So, net-net, we are a net investor and that investment activity actually is accretive to earnings, and that is how we think about it. It is in whole; it is not in individual parts.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

One other comment about – in the market is there may be some modest amount of active – very modest amount of activity within some of our joint ventures.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Great. And then just on CapEx, thanks for the additional supplemental disclosures on the executed leases. Just looking at some of the info, you were at about $55 million for leasing CapEx in 2017. You seemed to be running at a similar pace in Q1.

But you also had that pickup in TAs and landlord work on the leases that were executed in Q4. Should we expect any anomalies in terms of the pace of dollar spent as those leases commence in the next couple of quarters? Are you expecting kind of a similar pace in 2018 versus 2017?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.
A

We've been running – well, first, let me – just for clarification, because it is new disclosure from what we're reporting in the supplemental and the actual committed because there are even some swings there, right, and it's going to – it will vary depending on the mix of leases that – of lease activity that quarter.

But, going forward, for new leases, you could expect that number to be in the $30 to $40 range. And then, overall, when you blend in with all leasing activity, it will be in the $4.50 to $5.50 range. So obviously there's already been some movement from those numbers. And then going – in 2018, we've been running at about 10% of NOI spend. And in 2018, we are projecting that we're going to be a little bit north of that, so about 11%.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Thank you.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

Thanks, Christy.

Operator: Our next question comes from Rich Hill with Morgan Stanley. Please proceed with your question.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning, guys. Thanks for taking my phone call. I appreciate it. I want to maybe go back to the portfolio churn, for lack of a better term, and maybe circle in a little bit – focus in a little bit more on your ability to source attractive acquisitions this late in the cycle.

Is it really more repositioning assets in current markets that you're in or do you think it's – or do you see opportunities in maybe markets that you're not operating in and finding the right property in that given market? How are you thinking about that and how are you able to continually drive your growth through acquisitions?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Richard, its Mac. I'd be happy to take that one. I mean, as we've stated before, we're not actively out there looking to make many more acquisitions through the rest of year. But historically, we've sourced acquisitions through really our local offices, our local teams as part of our strategy is we're – with our 19 offices, we're in the market and we know properties even before they come to market.

So, it's really a vast network of our professionals and our acquisitions team. So, we've got great relationships with brokers, with property owners, and those people who typically sell properties. And generally we're in the markets that we already want to be in.

There's a couple of markets that we've considered going into, but we haven't made any commitments on those; we're studying those. But we have great coverage in the markets that we want to be in, and that's generally been our strategy.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And just maybe one follow-up question. Are you seeing any pickup in sales velocity that would allow you to increase your acquisition activity, or is it still relatively stable at this point in time?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

I would call it sort of – there's adequate demand to meet our plan. So, hasn't picked up, hasn't fallen off. There are buyers out there and buyers who want to transact, so there certainly isn't – we're not seeing anything that is suddenly increasing the amount of demand that would cause dispositions to increase. It's steady and it's adequate, and we feel good about our plan for the year.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And so, just to summarize all of this, it's really – and often improving the quality of your portfolio selling lower quality assets, maybe at slightly wider cap rates, but by redeploying that capital in more stable growth generating assets.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.
A

Yes, the increase in NOI-projected growth is the key part of it, and it's the quality of the center and the quality of the tenants behind it, and often that typically means a better quality location as well.

Richard Hill
Analyst, Morgan Stanley & Co. LLC
Q

Got it. Okay. Thank you very much, guys. I appreciate it.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.
A

Sure. Let me [indiscernible] (33:45).

Richard Hill
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Fair enough.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.
A

Not churn enhancement. And we do think that – and I just want to reiterate. Mac just mentioned it in terms of the NOI growth in those assets that we're acquiring being better. It really is – it's a critical part of fortifying the future NOI growth for the company.

Richard Hill
Analyst, Morgan Stanley & Co. LLC
Q

Understood. Thanks, guys.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

Thanks, Rich.

Operator: Our next question is from Vincent Chao with Deutsche Bank. Please proceed with your question.

Vin Chao
Analyst, Deutsche Bank Securities, Inc.
Q

Hey. Good morning, everyone. Just a follow-up question on the disposition side, so increased that to match the share repurchases in the quarter. So I think it's nice to see the execution on the share repurchase side.

But just curious, I would have thought it would have been a little bit more accretive just because the share repurchases are done already and the additional dispositions will take some time to close on. I guess can you give some visibility on that pipeline for disposing of the demand? It sounds like it's pretty similar to what you've seen in the past, but I guess how much visibility do you have on the $275 million?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.
A

Sure, Vin. This is Mac. I'll just give you an example. We have $50 million of properties that are under contract, another $100 million that are on the market, and the balance we're getting prepared to take to market.

So we're doing – we're underwriting and selecting brokers and whatnot. So we have some work to do. We recognize that, but we feel good about the guidance that we've given, and we feel we can execute that plan basically throughout the rest of the year.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

The timing should be kind of pro rata from – in the second half of the year, with minimal closings in the second quarter.

Vin Chao
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

And we did – I mean there is a little bit of uplift from that activity, but you have to keep in mind, there are so many other smaller – there's a combination of things that come in and out and we did raise our guidance essentially by $0.01, the low end. And don't forget, we did have $1.7 million termination expense that was certainly not expected.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

In buying out the Toys "R" Us lease.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

In buying out the Toys "R" Us lease. So, that is offsetting some of that accretion from that share buyback.

Vin Chao
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. That's helpful. And I'm just curious, I mean, a number of your peers who are also selling assets have been taking impairments as they bring assets to market. Just curious if we should expect that from this pool of assets.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

We did have one impairment on an asset recently, and it's one that we're intending to sell. It's a property that we developed in the last cycle, it's a larger property, happens to be in the desert here of Southern California. I don't think we'll typically see impairments on Regency-owned assets.

You might see them on an Equity One asset only because those were valued at fair market value a year ago as part of the transaction. And the basis for each of those properties also includes a portion of goodwill attributed to those and there's only been a year of depreciation.

So it's possible you might see that on the Equity One properties that we sell. We're agnostic as to which ones we sell. And we've said before that our disposition plan is to sell those that are non-strategic, that generally have low growth profiles, and they're marketable. The timing is right for selling them. So that's certainly how we look at it, and less so much on whether our property has an impairment or not.

Vin Chao
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you very much.

Operator: Our next question is from Nick Yulico with UBS. Please proceed with your question.

Nick Yulico
Analyst, UBS Securities LLC

Q

Oh, thanks. I actually just wanted to follow up on that impairment question. Can you just explain, you said it was the one asset it mostly related to, but was that the asset you said you sold after the quarter for $10 million? Is it the $8 million of assets held for sale on the balance sheet? Just trying to figure out the impairment relative to the value because it seems sort of large relative to some of those numbers.

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Particularly -- go ahead.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Go ahead.

It is actually – it is primarily related to one asset. It is an asset that actually has not sold yet. We have obviously targeted for disposition. And I will try not to go into any of the details on how impairment policies work, but we had a triggering event at that asset with the Toys "R" Us liquidation, and it essentially didn't pass the test. So, we tested it for impairment; we took an impairment. It's a legacy Regency development that we started I think probably 2006.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

In a non-target market.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

In a non-target market. It just had never – there had not been a triggering event, had been passing impairment tests to this point in time. And at this point, it does not.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

And we decided we're going to sell it with or without an impairment, so that was not...

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Right.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

...as Mac indicated, an overriding part of our decision.

Nick Yulico
Analyst, UBS Securities LLC

Q

Okay. And then – but this was not the asset that you mentioned in the supplemental that you sold.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

No, we have not sold it yet.

Nick Yulico
Analyst, UBS Securities LLC

Q

Okay. And it's not in your assets held for sale.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

It is not.

Nick Yulico
Analyst, UBS Securities LLC

Q

Okay. All right. Thanks for the clarification.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thanks.

Operator: Our next question is from Michael Mueller with JPMorgan. Please proceed with your question.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Yes, hi. A couple of questions. First, what portion of the portfolio do you still have that you would say falls into that 7.5% cap rate disposition bucket?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

I think that when we went through the analysis at Investor Day, we broke down the portfolio, and it was non-core assets that were 5% or less.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Got it. Okay. And second question, the Serramonte redevelopment was completed. So are there any plans for how you're thinking about that asset? Is it a long-term hold at 100%, maybe a JV, a portion of it, to fund development, just curious how you're thinking about that today?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

We believe there is an additional up -- and Mac can give the specifics, but we believe there is additional upside demand through future redevelopment. As you're aware, Mike, it's in an incredibly good location, and there's other opportunities there on the upside from that shopping center.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Yes...

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.
A

Mike, one thing I would add is that we are 97% leased now. We've had a pretty impressive amount of unsolicited offers from junior tenants who have come to us and asked if we can find some way to get them into the lineup because tenants are doing well there. So we're evaluating those opportunities, and I won't be surprised if we execute on some of those to continue to fortify the property and continue its growth.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Okay. That was it. Thank you.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

Thanks, Mike.

Operator: [Operator Instructions] Our next question is from Wes Golladay with RBC Capital Markets. Please proceed with your question.

Wes Golladay
Analyst, RBC Capital Markets LLC
Q

Hi, everyone. When looking at the higher move-outs this year, is that more a function of anticipated bankruptcies? Are you seeing any lower renewal retention?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.
A

Wes, as a reminder, the projection of estimated results so that we actually have – we still experience a pretty low level of move-outs, so the actual experience is still at low levels. So the projection is really, it's across the board; it's incorporating some potential anchor closures as well as potential fall-out in the shop space.

Wes Golladay
Analyst, RBC Capital Markets LLC

Q

Okay. And then, when you look to competitively bid on assets and bankruptcy, what type of returns do you target and did you competitively bid on all the Toys boxes or any additional ones?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

No, we were prepared to bid on one other asset at auction and didn't need to. There was I think a limited amount of term remaining under the Toys box, so fortunately company stepped in to start the bidding.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

From a – yes, from an approved sort of purchase as we were going into these bankruptcy proceedings, I mean obviously, we put a lot of work into it before we think about it in total as from what our redevelopment opportunities for that space. And we underwrite essentially a redevelopment opportunity, and those returns would be in line with the rest of our redevelopments.

Wes Golladay
Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thank you.

Operator: Our next question is from George Hoglund with Jefferies. Please proceed with your question.

George Andrew Hoglund
Analyst, Jefferies LLC

Q

Yes, hi. Good morning. Sort of wondering what's your exposure to Sprint and T-Mobile stores?

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

I don't know that we have that right...

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

We'll get back to you on that.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

...I mean it can't be very high, because it's certainly not anything that we have any focus on. But we'll get back to you offline.

George Andrew Hoglund
Analyst, Jefferies LLC
Q

Okay, thanks. And then just in terms of more potential store closings or bankruptcies that come down the line, do you think we get to a point where kind of your decision-making process changes at all in terms of how you think about kind of lease amendments to tenants?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

I mean, [ph] just for instance (44:12) and Jim can add color to that. I mean, we were approached by Toys to do some renegotiations on the leases and we said thanks but no thanks. So, you're going to always evaluate every opportunity and every conversation with the tenant on its own merit. But we don't see any trend in that at all, especially given the quality of the portfolio. That's not to say that there aren't going to be exceptions to that for various reasons, but that is certainly not an overwhelming trend or a meaningful trend.

George Andrew Hoglund
Analyst, Jefferies LLC
Q

Thanks for the color.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

Thanks.

Operator: Our next question is from Collin Mings with Raymond James. Please proceed with your question.

Collin P. Mings
Analyst, Raymond James & Associates, Inc.
Q

Hi, good morning, everybody. Just two quick follow-ups for me. I think just in response to Christy's question earlier on acquisition activity and capital allocation priorities, I think I heard a reference to maybe doing more activity in joint ventures.

Just to clarify, did you mean more acquisition opportunities, potentially with JV partners? Could you just maybe clarify that comment and then more broadly remind us how you're thinking about your JV platforms in the current environment?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.
A

We've got several, what I'd call, core JV partnerships, and we don't see adding to those JV partnerships. However, there's a certain amount of activity that occurs within each of those JVs. I would just reiterate there may be a modest amount of activity, some recycling that's going to occur within those co-investment partnerships.

Secondly, we do do a decent amount of development and joint ventures, joint ventures meaning we're – in the case of Town 'n' Country, where we were brought in by the family that own the land and own the property. And in the case of Ballard by an institution that wanted our development expertise, and we came in there on a 50/50 basis. So they can have a partner with real capital and real expertise to help them on the retail potential there.

Collin P. Mings
Analyst, Raymond James & Associates, Inc.

Q

Okay. So really just kind of a continuation of the same strategy that you guys have outlined, no change on the margin there. Just kind of giving us a heads-up that there could still be some acquisitions through a JV platform as opposed to maybe wholly owned. Is that fair?

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Yes, but it would be very – from our – from Regency's capital, it'd be very modest an amount.

Collin P. Mings
Analyst, Raymond James & Associates, Inc.

Q

Okay. And then just last one, just going back to the disposition discussion and obviously touched on this a lot of questions already. But just as you think about bringing in or starting to bring more properties to market, have you seen any interest from potential buyers in a portfolio of your properties, or do you think you'll see most of the sales executed more on a one-off basis?

Daniel M. Chandler
Executive Vice President-Investments, Regency Centers Corp.

A

Collin, I'd say, given what we intend to sell, definitely on a one-off basis, given the property, geography and the size and differences between them, we will likely execute all these on a one-off basis. Maybe I can see a situation where there's two bundled together, but nothing like a large [ph] part of portfolio (47:28) sale.

Collin P. Mings
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks for the time.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

A

Thank you.

Lisa Palmer
President & Chief Financial Officer, Regency Centers Corp.

A

Thank you.

Operator: Ladies and gentlemen, we've reached the end of the question-and-answer session. And I'd like to turn the call back to Hap Stein for closing comments.

Martin E. Stein
Chairman & Chief Executive Officer, Regency Centers Corp.

We appreciate your time and interest in Regency and hope you have a good rest of the week. Thank you very much.

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