03-Aug-2018

Regency Centers Corp. (REG)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

Laura J. Clark
Vice President of Capital Markets, Regency Centers Corp.

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

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

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

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

Michael Mas
Managing Director of Finance, Regency Centers Corp.

OTHER PARTICIPANTS

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Katy McConnell
Analyst, Citigroup Global Markets, Inc.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Chris R. Lucas
Analyst, Capital One Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Regency Centers Second Quarter 2018 Earnings 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.

I would now like to turn the conference over to your host, Laura Clark, Vice of President, Capital Markets. Thank you. You may begin.

Laura J. Clark
Vice President of Capital Markets, Regency Centers Corp.

Good morning, and welcome to Regency's second 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. Hap?

Martin E. Stein

Chairman & Chief Executive Officer, Regency Centers Corp.

Thanks, Laura. Good morning, everyone. Fundamentals in the shopping center business continue to be healthy, demonstrated by another quarter of solid results from our preeminent national portfolio. That said, we remain keenly aware of the changes occurring across today's retail landscape. Retailers have always faced a constant need to remain relevant through experience, through merchandise, through service and through value. The current environment is no different and the best grocers and retailers are not standing still. They are focused on meeting the evolving needs of today's consumer by allowing customers to choose how, where and when they will shop.

A physical store presence remains a critically important channel where retailers connect and service their customers. The best-in-class operators are looking for stores in high-quality shopping centers that are located close to the customers. Regency's top grocers and retailers, including Publix, Kroger, Whole Foods, TJX, Ulta, Panera and Orangetheory Fitness, to name a few, are addressing the evolving landscape through significant investments in technology, in experience, in price, and in many cases significant store expansions.

Regency's strategic advantages position the company to not only meet the changes occurring in today's retail environment, they will enable us to consistently grow shareholder value in the future. These unequaled advantages include a national portfolio that is distinguished in terms of its size, its breadth and its quality, well merchandised and well-conceived shopping centers located in dense in-fill trade areas, and neighborhoods with commute with substantial purchasing power that are must have shopping centers for successful and expanding retailers.

A best-in-class national platform teams located in our target markets throughout the country bringing market knowledge and expertise for value creation from asset management, development and redevelopment. A fortress balance sheet and disciplined capital allocation strategy and, most important of all, a deep and talented team that is guided by Regency's special culture. This proven formula will allow us to sustain same property NOI growth by 3% and earnings and dividend growth by an average of 5% to 7%. And these should generate sector-leading shareholder returns over the long term.

Jim?

James D. Thompson

Executive Vice President-Operations, Regency Centers Corp.

Thanks, Hap. Core fundamentals were gratifying with second quarter same property NOI growth of 4.2% and occupancy at 95.5%. It is important to note that base rent was the lion's share of this contributing 3.5% growth for the quarter. Retailers continue to behave rationally and deliberately and are focused on leasing space in well-located centers. We think this constructive behavior is a positive for our business and while recognizing today's changing landscape, our teams continue to have success as we focus on merchandising with best-in-class tenants, maximizing net effective rent over the term and minimizing downtime.

Our superior portfolio quality is evidenced in the recent outcomes of the Toys "R" Us bankruptcy. As you may recall, we had minimal exposure to Toys with only five leased spaces. To date, one of the centers has been sold, one box was assumed by another retailer at auction where we experienced zero downtime, one has already been re-leased, and we're actively engaged in discussion with multiple tenants including HomeGoods, Trader Joe's and Publix for the two boxes we acquired at auction. Overall, retail bankruptcies have been lower than anticipated today leading to solid performance and our raise in same property NOI growth expectations for the year, which Lisa will discuss in more detail.

Turning to operating performance, year-to-date rent spreads, while still healthy, are moderating a bit due to a couple of factors. First, we have a robust redevelopment pipeline, which Mac will talk more about next, where we are proactively creating flexibility to execute on accretive investments to drive future NOI growth and value creation. This means that sometimes we will execute flat or negative growth renewal deals in return for shorter lease terms or termination and relocation rights, which give us the ability to control our real estate for development in the future.

Second, renewing or replacing below market anchor leases after expiration can often have significant impact on lease spreads. In the first half of the year, we had a lack of legacy anchor leases come back to us, but as we look to the second half, we have several opportunities to bring these valuable spaces to market rents. More importantly, we've had great success including embedded annual rent increases in our leases and, over the last four years, have averaged 2.5% contractual increases on nearly 90% of our shop deals we've executed. This effort is certainly reflected in our strong same property NOI and cash flow growth over the last several years. Mac?

Daniel M. Chandler

Executive Vice President-Investments, Regency Centers Corp.

Thank you, Jim. The investment environment for institutional-grade shopping centers is stable and there continues to be solid demand, particularly for the highest quality properties where a diverse array of buyers continues to drive pricing.

On the selling side, we've seen adequate buyer pool for our commodity centers. These buyers are seeking solid growth and have access to debt financing. To date, we have closed on $143 million of dispositions at an average cap rate of 7.9%. Pricing on these transactions has met expectations and we have a visible pipeline to achieve our disposition plan of $275 million for 2018.

Consistent with past years, we typically sell 1% to 2% of our asset-base annually. The proceeds combined with free cash flow are reinvested into value-add developments and redevelopments, premier acquisitions with superior growth prospects or our own stock when pricing is compelling and tax gains are manageable. We believe this perpetual enhancement to our portfolio uniquely fortifies our NOI growth rate.

Turning to development and redevelopment, we are making impressive progress with our in-process pipeline, leasing velocity is strong and rents are meeting or exceeding expectations. Case in point, we recently completed our Chimney Rock development located in affluent Somerset County, New Jersey. This $71 million investment is anchored by Whole Foods, Nordstrom Rack and Saks Off 5TH. We are pleased to report that the center is 97% leased with retail sales exceeding tenant expectations.

As we've discussed previously, new ground up development opportunities that meet our high standards and disciplined strategy remain challenging to source. Fortunately, Regency's preeminent portfolio is full of redevelopment opportunities that are being mined by our talented development team. The following is an update of just a few of our near-term prospects. The Abbott, a true iconic property located in the heart of Harvard Square should start by year end. All approvals have been attained to allow the transformation of our three historic buildings into one integrated retail office flagship.

Next is the redevelopment of our mid-rise building at Market Common Clarendon, in Arlington. We intend to modernize and expand this 1960s era building into a new state-of-the-art four-level structure with dynamic ground floor retail fronting Wholefoods. Preleasing interest has been strong including the execution of a full floor lease with a luxury fitness club which will serve as another exciting draw for the entire project.

Located in Bethesda, Westwood Shopping Center is another exciting infill redevelopment opportunity. The first phase will consist of approximately 150,000 square feet of neighborhood retail, anchored by a top performing giant, 200 units of apartments, and 75 for-sale townhomes. We have strong interest in the residential components where Regency plans to partner with best-in-class co-developers to create an integrated project that will draw from this affluent trade area.

These three redevelopments are all projected to start within the next 12 months with an aggregate cost of approximately $170 million, and will generate an average incremental return of 8%. These are just a few examples of the kinds of compelling value-add opportunities which our portfolio and platform affords. Our experienced team is excited by the many opportunities in the pipeline, and we have visibility to exceed a $1 billion of development and redevelopment starts and deliveries over the next five years. Lisa?

Lisa Palmer

President & Chief Financial Officer, Regency Centers Corp.

Thank you, Mac. And good morning, everyone. We had another impressive quarter of same property NOI growth that was primarily driven by base rent. As Jim said, base rent growth contributed 3.5% for the quarter, and 3.7% year-to-date, a reflection of the strength of the portfolio with healthy embedded rent steps, as well as the result of accretive asset management and redevelopments.

This strong performance through the first half of the year combined with less tenant fallout than we originally projected, allowed us to raise our expectations around same property NOI growth. We have removed the potential for finishing in the bottom half of our previous range, and now expect to finish the year at 2.75% to 3.25%.

As we've communicated previously, we will experience a deceleration in the back half of the year with same property growth in the low 2% range for both the third and fourth quarters. Timing and the lumpiness of certain NOI line items are the primary factors as our guidance range does include very healthy base rent growth of 3% plus through the remainder of the year.

I think it would be helpful to take a minute and walk you through the primary drivers of this deceleration. First, we expect recovery rates to normalize through the back half of the year and end the year in line with 2017 levels. Second, as Jim mentioned, while we are making great progress on the Toys boxes that we acquired out of bankruptcy, we will experience downtime in the third and fourth quarters. Third, we're going up against tough comps as we completed the major redevelopment of Serramonte in the fourth quarter of last year. And finally, the timing of other income was front-end loaded this year versus last.

As we look through these timing impacts to growth in the second half of 2018, I'd like to reiterate that base rent growth is on track to remain above 3% in both the third and fourth quarters.

Turning to earnings; we have modestly increased our NAREIT FFO and Operating FFO guidance ranges incorporating the better performance through the second quarter driven by same property NOI growth. And as a reminder, Operating FFO eliminates non-comparable one-time items as well as certain non-cash accounting items like straight line rent and above and below market rent amortization. And I also think it's important to remind you that these non-cash items are expected to total $54 million this year, which at the midpoint – it's $54 million at the midpoint which is $0.32 per share.

Before turning the call over for questions, I would like to quickly touch on the new lease accounting rule that will go into effect in 2019. Many of you are aware that this accounting change will impact the way REITs will recognize certain internal leasing costs. Some of these costs have been capitalized with leasing activity, but after adopting the new standard next year, these internal costs will need to be expensed.

We anticipate the impact to be in the range of $0.06 to $0.07 per share on 2019 earnings. And while this will impact reported earnings, it does not impact AFFO or cash flow and we do not have any intention of allowing this accounting change, which doesn't have a true economic impact on the business, to influence our structure or compensation strategies.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first 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. Question for Mac here just in terms what you've been selling and you've sold post the quarter, are you seeing any shifts in pricing or bidding pools, maybe a little color on the market? And then including the stuff you sold out in the quarter, you're around the $150 million of sales. This leaves you another $125 million, $130 million to go to reach your guidance. You still assume a mid-7.5% cap rate. You've sold that at about an 8% here. So that implies that this next level will be closer to 7% cap. Is that fair and maybe you can just give some color on those assets and what's driving that better pricing maybe it's just simply better assets?

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

A

Sure thing, Jeremy. On the first half, I'd say the one change we have noticed is it does appear within our personal assets that we're selling and in the marketplace that once buyers and sellers are agreeing on price that transactions are closing. There's certainly a higher degree and a higher level of certainty that is improved really in the last 60 day, 90 days. So it seems like assets are clearing and we found that to be the case.

Your question on what's remained to be sold, we feel confident that we'll meet our objectives for the year of $275 million. We've got about $60 million in contracts that we're negotiating. And for the remainder of that, some properties are on the market and some we're preparing to take to market. But we feel overall that blended number is still in line with that plus or minus 7.5%.

So what's to be sold? It's a mix of some smaller properties and some bigger properties but in general it needs that same strategy of typically non-strategic assets, often those have lower growth profiles but they're good assets and we found a lot of activity there and probably more buyers who are putting forth credible offers than we've seen recently. So we're confident in seeing that.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Great. Thanks. And following on your remarks at the start of the call about the best grocers not standing still, can you talk a little bit about what you're seeing here in terms of grocers thinking more creatively about future space needs and formats in your discussion and then you've obviously done a number of deals with Whole Foods. Are you seeing any sort of increased activity or interest from them to expand further or try new formats post the merger?

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

A

I'll start and then Mac will probably add. Whole Foods has been much more active since the closing of the – with Amazon. Their store formats are very similar to what they've been in the past. From a size standpoint, I mean, we're still seeing typical Publix store in the 50,000 square foot range, Kroger in the 100,000 square foot range, the Wegmans that we're opening up in Raleigh and in Washington D.C. are 100,000 plus square foot range. We are seeing a number of the grocers that are trying to fit into more dense infill locations. They'll show more flexibility. But as far as any major changes to the formats, we're not seeing that. You know obviously we've read a lot about some of the moves that we all have that Kroger has made as far as the partnership with Ocado, et cetera So there's a lot of investment in technology, investment in click and collect. And I think they are attacking the business on all fronts and once again in many cases that also involves adding new bricks-and-mortar stores. Mac, you want to add anything?

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

A

Yeah. I think there is a premium placed on location as opposed to prototype and it appears that grocers are being slightly more flexible than before in terms of size, sort of plus or minus 5,000 feet to 10,000 feet. But they really value that location that lead to the customers and there are many opportunities that they're looking at and we like what we see.

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

A

And they want to make sure they have adequate space to provide experience, which I think they feel is a key differentiating factor.

Jeremy Metz
Analyst, BMO Capital Markets (United States)

Q

Okay. And last one from me just to spread it around here, Jim, you talked about some shorter term deals or giving more to get more rights here. If I look at your renewals in the quarter, activity wise, it's pretty consistent. But if I look at the leasing strategy, it was a little lower and then if you look at the TIs those are almost double your more or less normal spend. So, is this simply a reflection of what you were alluding to or maybe there is a few larger deals driving these metrics and any color there?

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

A

Jeremy, I think as far as the capital spend goes, I think it's mostly a timing issue. And I think if you look at a year in or annualized basis, we're going to be in the 10% to 11% of total NOI on total CapEx spend, which is where we've been.

I think, as to growth, we had a smaller pool of anchor opportunity. We think, in the second half, we'll have more opportunity to recapture some of those legacy anchor deals and bring them to market. One example of that is we just executed a lease with Publix down in Tampa to backfill a Walmart store and that we took that rent from $4 to $16 per square foot deal. So, again, I think at the end of the day, we think we'll be on the spread side in the high-single digit, which is consistent with our strategic plan.

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

And our net effective rents are mid-double digits like 15-plus percent. And I'd also say and I don't want to come across as being defensive here, but it is interesting to note that, over the last five years, Regency's rent growth appears to be middle of sector. However, over the last five years, our NOI growth is the top of the sector and its things like embedded rent growth that's getting us there and less exposure to some of the bankruptcies and tenant failures.

So you've got to add it all together. And it is hard comparing comparability both internally, year-to-year on what spaces may come up, what we consider for rent growth and what others in the sector may. So, we feel really good, as Jim said, about our increase in net effective rents. As Lisa indicated, base rent should increase by over 3% for the second half of the year. We're on track to do that and continuing to achieve 3% NOI growth for the foreseeable future.

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

Hap said that so well. I hate adding something a little bit more like detail and granular, but I don't, Jeremy, if you're referring to page 19 disclosure in our supp where we have our TIs, just want to remind you, we had the new disclosure last quarter and, when we did disclose it, we told you that it was at an abnormally low level. So, I believe for new leases, our total spend was in the $16 a foot range, and just wanted to even remind you then that that would not be – that was abnormal, and that wouldn't be the case going forward, and we'd be more in the $30 to $40 per square foot range, which is where we were this quarter.

Jeremy Metz
Analyst, BMO Capital Markets (United States)
Q

Appreciate it.

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

Katy McConnell
Analyst, Citigroup Global Markets, Inc.
Q

Good morning. This is Katy McConnell on for Christy. Since one of your recent dispositions had a former Toys box, can you talk about how buyers are underwriting box vacancies or even just at risk tenant exposure when evaluating specific centers today?

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

Sure. I'd be happy to. For that particular asset, this was pretty unusual. So, what we did is, we actually gave this buyer some time to actually find a replacement tenant and they did, and it allowed us to maximize our price, allowed them to pay more for it, and they were actually able to get a tenant, get a real estate committee approval and get a lease in hand, and we thought that was a win-win on both sides, so they backed filled it with a Burlington, and in every case it is different case by case as to how acquirers are back-filling boxes, but we thought that was a smart strategy that worked out well for us, but that's how that happened.

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

A

And it is indicative though that the buyers today are more discerning, they're more risk averse, but I think this is also indicative that even though we're selling based upon non-strategic lower growth profile, these are still pretty decent assets that we're targeting for sale, and they're not out of the middle or the top part of our portfolio.

Katy McConnell
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. Thank you.

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

A

Thank you.

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

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Thanks. Good morning. Is the higher construction cost impacting future redevelopment yields, some of the things that you addressed happening going forward?

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

A

I would say that the current projects that we have and imminent projects, we have priced in the construction increases that we're all seeing out there. And this isn't a new phenomenon; this has been going on for the last couple of years. As you get further out two to three years, it is harder to project construction cost, but most in the industry think that these last two years are abnormally high and construction costs are going to start to moderate at some point and go back to traditional levels of inflation. But I wouldn't say that is a reason for our yields. It's a summation of income and cost, it's everything. And I think we've done a good job of managing that, you could tell by our in-process projects how they are coming in as underwritten and, I think, we do a lot of work and accurately forecast what our costs are.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Great. And then...

[indiscernible] (25:16)

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

A

...real, but the deals are still penciling out on a basis that make compelling sense.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Great. And then I believe in your presentation it says that nearly 20% of your tenant base is restaurants. Is that where you'd like to be or would you like to take it higher or possibly even lower?

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

A

20%, we've been kind of in the high-18% to 20% for a long time and that feels like the right space to be. I think it is a bit self-governing between anchor requirements and parking – reality in the ability to park to the customer. So we think that's kind of the sweet spot, and we like the place we are right there.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Perfect. Okay. Thank you.

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

A

Thanks, Craig.

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. Hey, I wanted to come back to maybe some of your prepared remarks and maybe talk about the slowdown that is being implied by your same-store NOI guide. You guys have generally done a pretty good job of being cautious. So if you could just give me maybe a little bit more color on how you're thinking about that, is there anything specifically driving that, or is it just you wanting to be a little bit more cautious and make sure that you're really seeing signs of inflection before moving things even higher?

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

A

Sure. And I will go right back to my prepared remarks and reference those. But, first, I want to start with – because this was also in my prepared remarks that we are seeing really solid base rent growth, which is the primary driver of our same-property NOI growth and that through the year is at 3.7% year-to-date.

We will see that come down slightly as a result of – again, in my prepared remarks, I mentioned the tougher comps on the completed redevelopments in the latter half of last year, but still north of 3%for the second – in both the third quarter and the fourth quarter. The fourth quarter, we're going to see even more of a slowdown because we have the major redevelopment of Serramonte coming on line with rent commencement then. So, we feel really good about the fact that we're going to have a full year with base rent growth north of 3%.

The other items, there are some timing issues involved with those and a big one is recovery income. So, the timing for CAM recoveries is really related more to last year. So, this year was much more typical. Last year, we had a major merger that we were integrating and the reconciliation timing was a little bit unusual for the year. So, we're seeing a little bit of a drag in the third quarter for that reason.

And then in the fourth quarter of this year, we will see a drag from real estate tax recoveries, if you will, and assessments and the recovery for the income for that. As we expected, when we merged with Equity One, we knew that our properties and, specifically, in certain states like California would be reassessed and those are coming in and they also go back to the date of the merger. So, it's a little bit of a double hit. So, in the fourth quarter, we're going to have a significant impact on same property NOI as a result of that. We recovered a lot of it, but we can't recover all of it. And then we have – other income was more front-end loaded in 2018 versus 2017, and they're the main drivers.

Richard Hill
Analyst, Morgan Stanley & Co. LLC
Q

Got it.

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

From a narrative standpoint and from an anecdotal, what's really happening with the underlying fundamentals, this does not reflect that we're seeing a moderation in fundamentals between the first half of the year and the second half of the year. It's just the items that Lisa articulated.

Richard Hill
Analyst, Morgan Stanley & Co. LLC
Q

Got it. That's very, very helpful. Thank you. And then maybe one question, follow-up question, maybe expanding upon the return on investment capital. Have you guys thought about – I'm sure you have – have you guys done an analysis on densification opportunities across the portfolio. Obviously, there is a lot of talk about this, particularly with autonomous cars over the next 5 to 10 years. But I'm curious if you think there is specific or even general densification opportunities that could help you drive growth even further?

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

I think that Mac articulated three major redevelopments that are underway and you can kind of summary review those again, where the – very, very exciting redevelopments. And I think all three of them involve some sort of densification or they are in infill, dense infill locations.

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

Yeah. That's...

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

It was a couple more that were back behind those.

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

Yeah, that's exactly right. We, as part of our day-to-day business, we're constantly evaluating our portfolio for densification opportunities. And in many cases, we've seen cities actually really just prescribe to us additional entitlements, even unsolicited, and they're doing that to encourage housing and as part of the general plan updates.

You can't access them all right away. Oftentimes, it takes the expiration of an anchor lease. And so, we note when that happens and we start to plan ahead for that. So we've done that in quite a few cases, but there will be a sort of a methodological approach to it, which will happen over time. But we definitely think there are some opportunities and our teams are keenly focused on them.

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

And as we stated in the past, we have hired a Senior Vice President of Mixed-Use that works directly with Mac, who has extensive experience in the multi-family sector. And I will say we've got great properties, some with great potential, but these especially vertical mixed use projects are complicated, they're challenging, they're easier to talk about than to make happen, they take years to create and bring to fruition. We try to right size and have a very practical approach, we're making good progress on a number of these, and to underestimate what's involved in making them successful would – anybody doing that, it would be a mistake, because there's not a...

Richard Hill
Analyst, Morgan Stanley & Co. LLC
Q

Understood. Thank you, guys. I appreciate all the additional color.

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

Thank you.

Operator: [Operator Instructions] Our next question comes from Mike Mueller with JPMorgan. Please proceed with your question.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Hi. A couple of questions here. First of all, on the extra lease accounting items for the expense, what's the geography of where that's going to show up in the income statement going forward in 2019?

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

It will be in G&A.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Well, G&A. Okay. And then it was touched on before with the rent spreads, and I know there was a high single-digit number that was thrown out there. If you go through and you strip out the impact of the repositions that you were talking about and just look at the spreads minus that, would they be in that upper single-digit close to double-digit level?

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

I'm not sure we fully understand what you're asking, Mike.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

So, your rent spreads are mid single-digits, and you went through, there was a bunch of caveats as to why they moderated, if you would take the repositioning aspect of that out that was weighing on it. With that, all of a sudden if you had no redev in there, would your spreads be closer to that double-digit level?

Michael Mas
Managing Director of Finance, Regency Centers Corp.
A

Mike, this is Mike. I'll jump in here. There's really – in this particular quarter, it really is a mix issue. We are seeing some active leases that we're signing in anticipation of potential repositioning. Oftentimes these are happening two to three, maybe four years in advance of when we start a redevelopment. That's how long it takes to position some properties for redevelopment. So, to answer your direct question in the math of this particular quarter, not seeing a lot of material change in how you slice and dice that particular population. But we are seeing an impact to lease spreads metric when we make some of these decisions.

And on a trailing 12-month basis, what's important is, we're posting a least metric number that is in excess of what we did this quarter. And as Hap mentioned earlier, our net effective rent spreads are in the 15% range which we feel really good about.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Got it. Okay. That was it. Thank you.

Michael Mas
Managing Director of Finance, Regency Centers Corp.
A

Thanks, Mike.

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

Thanks, Mike.

Operator: Ladies and gentlemen – oops, someone jumped into queue. Our next question comes from Chris Lucas with Capital One Securities. Please proceed with your question.

Chris R. Lucas
Analyst, Capital One Securities, Inc.
Q

Good morning, everybody. Just a quick question on the – follow-up on the same-store NOI guidance for the back half of the year question. You mentioned a number of items that are contributing to sort of the expected deceleration. But I guess more – the question I have is really more about rent commencement timing. You have a pretty good handle on that and there's been a number of your peers who've talked about the permitting issues that they've experienced and the timing issues that are going into sort of the uncertainty they have with the back half of the year. What are you guys saying?

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

A

We do have a pretty good handle. And trust me Chris, I ask the question pretty frequently on what – really the main drivers are the anchor rent commencements that are expected to happen in the back half of the year, and we feel really confident and good in our projections for when this will happen.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Okay. And then just a quick follow-up.

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

A

Not that...

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

A

Not that there is some risk, but it could slip.

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

A

Orders now taking a while to happen, but we feel pretty good about the timing that we're projecting.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Okay, thanks. And just a quick one, I missed the earliest – or the beginning of the call. So, I don't know if you've touched on this, but a number of the projects either delivered with a slightly higher – well, a couple of projects either delivered with slightly higher than previously sort of projected yields, or are trending towards higher yields, anything in particular that's driving that other than just better rents?

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

A

In one case it was actually a reduction in cost. We were able to get back some contingency that was unspent, and the other piece slightly better rents. So, there isn't a broad theme there, those are specific and we were glad to see those results.

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

A

Well, that is an example where we were able to take money from contingency where we are planning for these significant increases that are occurring in construction cost.

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

A

If I may, and no pressure on Mac or rest of the team, but we report to our board quarterly on the performance of our developments, and have been for the entire time that I've been here. And we've developed probably, I don't know, $2 billion plus worth of properties, and our actual returns on that $2 billion are pretty darn close to our underwritten returns which is pretty exceptional. So, a lot of it's a testament to the team, and how we underwrite and manage and actually execute on the build of those projects.

Chris R. Lucas
Analyst, Capital One Securities, Inc.

Q

Great. Thank you. That's all I have.

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

A

Thanks, Chris.

Operator: There are no further questions. At this time, 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. Have a good weekend, and if you get to spend some time with your families over the rest of the summer. Good luck and enjoy. Thank you so much for your time and interest in Regency.

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