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REG.OQ - Q3 2023 Regency Centers Corp Earnings Call

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Company Summary

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PRESENTATION

Operator

Hello, and welcome to the Regency Centers Corporation Third Quarter 2023 Earnings Call and Webcast.

(Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Christy McElroy, Senior Vice President of Capital Markets. Please go ahead, Christy.

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

Good morning, and welcome to Regency Centers' Third Quarter 2023 Earnings Conference Call. Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Alan Roth, EVP National Property Operations and East Region President; and Nick Wibbenmeyer, EVP and West Region President.

As a reminder, today's discussion may contain forward-looking statements about the company's views of future business and financial performance, including forward earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to various risks and uncertainties. It's possible that actual results may differ materially from those suggested by these forward-looking statements we may make. Factors and risks that could cause actual results to differ materially from these statements may be included in our presentation today and are described in more detail in our filings with the SEC, specifically our most recent Form 10-K and 10-Q filings.

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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 disclosures related to forward earnings guidance. Our caution on forward-looking statements also applies to these presentation materials. Lisa?

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

Thank you, Christy, and good morning, everyone. We had another strong quarter of operating results, supported by continued positive momentum in our business. Tenant demand remains really healthy and consistent and this is evident in the strength of our rent growth and our ability to further increase leased occupancy despite elevated bankruptcies. And you're going to hear a lot more about this from Alan in just a few minutes.

We continue to drive success within our development program as well. This is reflected in the leasing progress that we've made across our in-process pipeline as well as our significant volume of project starts year-to-date. Development is a core competency of our company. And as you've heard me say before, I believe we have the best national platform in the business. We have proven our ability to create meaningful value and earnings accretion over time and we remain well positioned to reach our targeted annual pace of $200 million to $250 million of redevelopment and development spend annually.

On the transaction side, we were proud to close our merger with Urstadt Biddle in mid-August. And since then, we made significant headway integrating the assets into our platform and welcoming our new Regency team members. Our short time with the portfolio and the people has only served to reinforce our confidence in the combination of our 2 great companies. We also recently acquired 2 shopping centers. Nick will discuss these in more detail. But despite a pretty thin transaction market, I'm really proud that we were able to find some higher total return needles in the haystack.

So just turning to the macroeconomic environment. Yes, we continue to see positive trends. We are seeing in real time the spending power of the consumer in our trade areas. This is evident in the solid sales performance for our tenants and for traffic to our centers. And while a deceleration perhaps has been expected by many, we are not seeing it. We remain really encouraged by the structural supply-demand trends that are supporting our business today.

Our tenants continue to invest in brick-and-mortar stores that are profitable as last -- as a last mile distribution channel and our suburban trade areas continue to thrive. And while we continue to create value through ground-up development, overall, there is very little new retail space being added in the U.S., supporting the value and scarcity of existing space. That said, we do acknowledge that increased interest rates and significantly higher borrowing costs in the recent months do create uncertainty.

First is the future to our earnings from refinancing next year's debt maturities. Our intentional strategy of maintaining low leveraged and a ladder debt maturity schedule do act as mitigants to changes in rates but we still expect to see an impact in 2024. The bottom line, though, is that in today's uncertain world, the one thing that we -- that I am certain about is that Regency remains well positioned. And this is a direct result of many attributes, one of which is our intentional portfolio composition. We believe the quality of our grocery-anchored neighborhood and community centers, and the strength and demographics of our trade areas support durability of occupancy and create a wide buffer to insulate against potential economic impacts to our tenants and to our customers.

And another attribute is our strong balance sheet and liquidity position, including our significant free cash flow. With this, we have flexibility in our capital allocation decision-making and an ability to self-fund and maintain consistency in our value creation pipeline through economic cycles. And importantly, we can also continue to play offense and be opportunistic. All of this is what's enabled us to maintain our dividend through the pandemic and raised it again this quarter by another 3% We're now up 15% from 2019.

Alan?

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Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Thank you, Lisa, and good morning, everyone. We continue to experience a very healthy retail environment as demonstrated by another quarter of strong operating results and demand for space in our centers remained robust. We increased our same-property leased rate by 20 basis points in the third quarter, even when factoring in roughly 25 basis points of impact from bankruptcy-related move-outs, primarily attributed to the remaining Bed Bath locations.

Our shop leasing activity has been at a record pace over the last several quarters, including above-average retention rates, resulting in another 50-basis point increase in our shop leased rate in the third quarter to a near record high of 93.2%. We were also able to generate solid re-leasing spreads again this quarter, 9% cash spread on a blended basis, including spreads of more than 20% on new leasing.

Our straight-line rent spreads were above 17%, reflecting our keen focus on sustainable annual growth and our ability to consistently achieve contractual rent steps in the majority of our leases with annual steps often 3% or higher on our shop deals.

Leasing progress continues to drive strength in our same-property base rent growth, which was more than 3% in the third quarter and remains our largest and most important contributor to same-property NOI growth. We continue to replenish our executed SNO pipeline as tenants open today, representing more than $36 million of annual incremental base rent, and our leasing pipelines remain full, supported by continued depth and negotiation activity. We are seeing strength in tenant demand across all of our regions and from a range of categories, including grocers, off-price, medical, restaurants, fitness, and pet services.

In fact, at our former Bed Bath location, we've had one of the fastest absorption rates in recent memory as it relates to a material anchor liquidation. And while most of the new leases won't commence until the second half of 2024 or later, half of our vacated spaces have been executed with new tenants, and the remainder of the space is in active negotiation. Based on our activity backfilling the rejected leases, we now expect rent spreads above 30% on average, exceeding our original projections.

In regard to the recent Rite Aid bankruptcy filing, we have 22 locations in total, representing 50 basis points of ABR. We had one store that was already dark, which was part of the initial rejection list and one more on the going out of business sale list. We are early in the process of this bankruptcy proceeding but we feel really good about our exposure and the quality of our locations as a result of productive sales or below market rents. We know that tenant bankruptcies are a normal part of our business. And importantly, our high-quality shopping centers are well positioned to grow through it with better merchants, often at higher rents and driving greater traffic to our centers.

Lastly, as Lisa mentioned, the integration process with, Urstadt Biddle has been progressing successfully. We're excited to welcome our new Regency team members in the Northeast and bring these high-quality assets into our portfolio where we are already having tremendous success on the leasing front. With this transaction, we further strengthened our best-in-class operating platform.

Nick?

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Thank you, Alan. Good morning, everyone. We had another productive quarter for development and redevelopment activity, increasing our starts year-to-date to $210 million. One of our Q3 starts is the $15 million redevelopment of Circle Marina Center in Southern California. Acquired in 2019 with the intention of redeveloping the Center, the project includes the replacement of the existing Staples box with the new Sprouts Farmers Market in addition to extensive site improvements of the (inaudible) renovation enhancements to the shop space in common areas. We continue to make great progress executing on our $440 million in-process pipeline and have seen tremendous activity on these projects, currently over 84% leased with blended returns of more than 8%.

As an example, at our ground-up Glenwood Green project in Old Bridge New Jersey, the target in ShopRite buildings are substantially complete and on schedule to open this coming spring. Leasing momentum has been strong. We are now 92% preleased with a great tenant lineup, including Wawa, Shake Shack, Duck Donuts, Paris Baguette and Evolve Med Spa.

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Now turning to acquisitions. While private transaction market activity remain thin, we were able to source 2 unique opportunities to allocate capital and higher IRRs within our targeted trade areas. In September, we acquired Old Town Square within one of our joint venture partnerships, a high-performing center in (inaudible), Chicago neighborhood anchored by Jewel-Osco, the recent top grocer. This is a near urban asset with a suburban file layout located in a trade area with over 500,000 residents in a 3-mile radius. It is widely regarded as one of the premier grocery-anchored centers in the Chicago area.

In October, we closed on the acquisition of Nohl Plaza in Orange County, California. This Vons-anchored center provides a near-term value-add opportunity after redevelopment, resulting in an estimated IRR that will exceed 10%.

As we look ahead, our teams remain focused on building our value creation pipeline and we see the opportunity to start more than $1 billion of development and redevelopment projects over the next 5 years. Demand is strong among grocers and other retailers looking to grow their footprints in high-quality centers within attractive trade areas, coupled with the relative lack of new supply. We have the best development team in the business and we continue to see a compelling opportunity to capitalize on this incremental demand at a time when we are one of the only developers with the capability to fund projects and execute.

And as we've discussed many times before, we have the ability to self-fund our growth pipeline without raising any incremental equity with free cash flow north of $160 million annually. We are sourcing these projects through the redevelopment of our existing assets, we're acquiring redevelopment opportunities like Circle Marina and Nohl Plaza, and we're partnering with landowners and expanding grocers as we seek new ground-up development projects.

It's important to note, especially in this environment, that as we evaluate investment opportunities, our teams remain cognizant of today's higher cost of capital, and we are focused on ensuring appropriate risk-adjusted returns. It also gives us comfort that for the type of assets we are building and redeveloping, we meaningfully derisk our projects ahead of putting a shovel on the ground with significant pre-leasing, entitlements and bids for the majority of our cost in hand. Overall, we are excited about the investments we've made and by the opportunities we see ahead of us.

Mike?

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

Thank you, Nick, and good morning, everyone. I'll start with highlights from our third quarter results, walk through a few changes to our guidance for the balance of this year, provide some comments on 2024 and finish by touching base on our balance sheet position.

We reported third quarter NAREIT FFO of $1.02 per share, which was impacted by $0.01 of UBP merger transition expenses and core operating earnings of $0.97 per share. We grew same-property NOI by 2.9% in the third quarter, excluding the impact of COVID period reserve collections and termination fees. Importantly, as Alan mentioned, the largest component of growth continues to be base ramp, contributing 320 basis points to our NOI growth rate in the quarter, driven by the combination of embedded rent steps, higher commenced occupancy and redevelopments coming online.

Turning to our revised current year guidance, I'll refer you to the detail on Slides 5 through 7 in our earnings presentation. Driven by another strong quarter of new leasing and continued high tenant retention, we've eliminated the bottom end of our prior same-property NOI growth range and are now guiding to finish the year at about 3.5%, excluding COVID period reserve collections and termination fees.

We have also raised our per share core operating earnings guidance by $0.03 at the midpoint, driven primarily by the upward revision to same-property NOI, the expected accretion from the Urstadt Biddle transaction and changes to our acquisition and disposition assumptions. Comparably, we only raised our NAREIT FFO per share range by $0.01, primarily due to the offsetting impact of forecasted merger transition costs.

As we all start to plan for 2024 on Slide 8 of our earnings presentation, we provided some forward-looking considerations of certain nonrecurring items, including COVID period reserve collections and noncash impacts as well as summary details on the Urstadt Biddle merger accretion and

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related continuing transition expenses. While I won't belabor the details on today's call, we trust you'll find this disclosure very helpful, and we highly recommend you review it as we recognize there are many moving pieces to consider heading into next year.

Additionally, given the higher interest rate environment and potential future refinancing impact, we want to provide as much transparency as possible as to how we are thinking about our financing plans next year. These plans include an unsecured bond offering in the first half of 2024, sized in the $400 million to $450 million range with proceeds used to refinance scheduled debt maturities and to reduce our balances on our credit facility.

We are proud of the strength of our balance sheet, which has been an intentional and foundational strategy of our company and is particularly important in times like today when for others, access to capital is more limited and pricing more volatile. Importantly, as Lisa mentioned, we are not immune to the adverse impact of higher rates but our overall low leverage, combined with a well-laddered maturity schedule helps mitigate the financing impacts for Regency in any given year.

We feature one of the strongest balance sheets in the REIT sector with our leverage remaining at the low end of our targeted range of 5 to 5.5x debt-to-EBITDA. We continue to generate significant free cash flow, expected to be north of $160 million this year, self-funding our growing investments pipeline, and we have access to meaningful liquidity through our $1.25 billion line of credit. Given this foundation, we remain confidently on our front foot as we move forward.

With that, we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Michael Goldsmith from UBS.

Michael Goldsmith - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

Can we just talk quickly about the moving pieces of the Urstadt Biddle transaction, any impact on the guidance next year and then also next year? It seems like the deal is a headwind in NAREIT FFO this year. And so maybe the fourth quarter FFO number isn't the best run rate for next year, but it's also positive in core operating earnings this year and next year, it should be a tailwind to both FFO and core operating earnings. Is that right, Mike?

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

Yes. Thank you, Michael. I would encourage everyone to look at Page 8 of the supplement that we put out with our guidance considerations for next year. I think that would be very helpful. But I think you've actually outlined it pretty well in your question. It will be a positive contribution from a core perspective at a -- at the level of about 1.5% accretion. And we've given those components there on the Slide. It's basically worth an incremental $0.04 to $0.05 per share in '24 versus '23. And then the complexity that you're outlining would be in our NAREIT FFO line item as it relates to merger transition costs.

We will have -- we'll end this year, we estimate in the $5 million area, large portion of that coming through in the fourth quarter of this year. And then we are anticipating the trailing $7 million of those same expenses on a transition basis leaking into 2024. From a timing perspective there, I think it's fair to just usa a pro rata spread of that $7 million through the year next year.

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

And I can help by take this opportunity -- I think it's a great opportunity to just reiterate what I said in my prepared remarks. It's been a short time. I mean we just closed in mid-August but the integration and bringing the properties and the people into Regency in that short period of time, it's just -- it has just really validated that this is a great transaction and a combination of 2 really good companies, and we're excited about it.

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

Thank you. One last piece, Michael. Just to confirm, many have asked us about the noncash impacts from the purchase accounting, just -- it's in our materials, but I just want to confirm that there is no impact in 2024 as the revenues -- the noncash revenues are offsetting the noncash expenses.

Michael Goldsmith - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

And my follow-up is on the lease escalators. It seems as though that's the largest piece of your same-property NOI algorithm, it seems like you're getting 3% plus. I guess how quickly can -- in an elevated escalator environment, you've got the most exposure to small shop, how quickly can you kind of cycle through some of the older leases, which may have lower escalators and get these tenants on to higher escalators, so that it slowly lifts your overall earnings growth on the same-property NOI algorithm?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes, Michael, this is Alan. What I would say is that is a keen focus and has been for quite some time. And as you noted, I don't think you said the number, but 75% of our shop deal did have 3% or higher escalators and approximately 95% of our deals had escalators. So the team is constantly when given the opportunity to have access to this embedded rent step opportunity, we are implementing it. And so certainly, a keen focus.

Operator

Next question is coming from Juan Sanabria from BMO Capital Markets.

Eric Martin Borden - *BMO Capital Markets Equity Research - Senior Associate*

It's Eric on for Juan. Maybe just starting with Old Town Squares, I just want to talk about -- maybe you could talk about the back story and maybe the opportunity set within the asset. And then is this maybe a potential indication to increase your presence into Illinois and potential other Midwest markets?

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Eric, this is Nick. I appreciate the question. So starting off with Old Town per your question, yes, it's an asset we've been targeting for quite some time to have the ability to have a suburban layout in a near urban environment with a really high-quality grocer. And we've tracked that asset for so probably over a decade and just seen it perform year in and year out. And so it was one we were excited to have the opportunity to participate in the bid process. It was ultimately owned by an institutional owner that did have an end of their life to that whole period, is our understanding, and so they were looking to liquidate it.

And on the flip side, once we got control of it, one of our long-standing institutional partners that we've been partners with for nearly 20 years, did have the opportunity through our rotation to take an 80% stake and they exercise an opportunity given they were excited about the real estate as well. And so we were happy to get that one locked up and close this quarter.

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In terms of your question on the Midwest, as you know, we're focused in all of our major markets that we have offices. So we are looking for those needles in the haystack. And I think the analogy I heard this week, and I kind of like it is instead of the normal deal flow, there's drips of water out there. And so we are evaluating each of the drips of water in all of the major markets that we do business in. and the ones that, as we've always said, are equally accretive to our quality and growth, and/or -- and accretive to earnings, we're going to act on. We have the ability to act on. And so whether it be in the Midwest or the coastal markets, we're focused on investing our capital where it makes sense.

Eric Martin Borden - *BMO Capital Markets Equity Research - Senior Associate*

Okay. That's helpful. And maybe one on the SNO pipeline. Of the $36 million, how much is that related to Bed Bath? And then how should we think about the cadence that coming online through '23 and '24?

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

Eric, $1.5 million of that $36 million is Bed Bath. I'll add to this. Interestingly, we did add $3 million of UBP portfolio SNO pipeline to that number as well in the quarter. And from a cadence perspective, about 80% of that pipeline will come online through the end of next year.

Operator

Next question today is coming from Lizzy Doykan from Bank of America.

Elizabeth Yang Doykan - *BofA Securities, Research Division - Research Analyst*

I just wanted to follow up on the cap rate that we closed on for the Chicago asset and maybe if this is an indication for where you see cap rates trending for quality grocery-anchored centers today? And then separately, if you could confirm the pricing on Nohl Plaza. I know that deal is quite different, given the redevelopment opportunity, but would love to hear more of the back story on that as well.

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

I'll take the first part and then I'll pass it to Nick for Nohl Plaza. I loved -- I love Nick's analogy. I actually didn't hear that this week, and we were together. So I'm not certain where he heard it. But there really are drips of water and not deal flow. So it's really difficult to say that the cap rate on Chicago is a read-through to cap rates where there's -- the transaction market is still just really thin. And we did have -- we think of it and I said it in my prepared remarks, really is more of a needle in a haystack.

The most important thing, and Mike said this, and you've heard me say it many times, we generate a significant amount of free cash flow and we have that cash flow prioritized to go through our development and our redevelopments. But to the extent that we have excess cash flow, not allocated to that, we have the ability to be opportunistic. And that's what you're seeing us do. And that's what we did with the Chicago asset as well as Nohl Plaza.

So I'll pass it to Nick for Nohl.

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Thank you, Lisa. And thanks, Lizzy, for the question. Yes, great question regarding Nohl, very different profiles in Old Town. And so Nohl was owned by a tick that had owned it for decades, ultimately got to the point where the tick wanted to divest, and take their money and move it elsewhere. And so given it was owned by a tick as most tick situation, not a lot of capital invested over those years. And so a great opportunity for us to use

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our platform in Southern California come in. We love the real estate. We love the fundamentals of it but it definitely needs a reinvestment, and that's an opportunity for us.

And so we -- although you see the cap rate there when you do the math is lower than a standard acquisition. Given the redevelopment we expect to do near term and the investment we expect to make, we do expect the IRR to be north of 10%. And so we're really excited about using our redevelopment expertise to shine that asset up and put into the operating portfolio for a long time to come.

Elizabeth Yang Doykan - *BofA Securities, Research Division - Research Analyst*

Great. That's helpful. And second, just looking at your page on net effective rents from the supplement, it looks like the composition of new leases signed for small shop trended down quarter-to-quarter, closer in line with anchor leases signed. I guess, first, is that a function of moderating demand from small shop, what may be more of a fair composition to think about in signing new leases? And then second, what's more realistic as to how much further you can push on the small shop leased rate, given it's reached a near record high?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Lizzy, this is Alan. Thank you for the follow-up question. So no, it is not indicative of any market noise whatsoever. It can be a bit lumpy quarter-over-quarter, as you know. And you said it, yes, there were more anchor transactions in Q3 than we had in prior quarter. And so that certainly is what drove that.

Regarding shop leased rate, I was laughing but dead serious when we were having a conversation amongst the company records are meant to be broken. And so I really believe in the team we have, the portfolio that we've got. And so we are certainly focused on the shop side, although at the 93% mark right now, being able to do our best to continue to drive that. So excited to watch and see what the team can do.

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

The environment, as you've heard us say, and you've heard all of our peers, is really healthy today and the demand in our sector is really strong. And we've reiterated the structural tailwinds we have, they're still there. The post-pandemic, hybrid work, limited new supply and just the renewed appreciation from both the customers, the shoppers themselves and the retailers on the physical presence. And we are still benefiting from those tailwinds. So I do believe that this record is there to be broken.

Operator

Next question is coming from Greg McGinniss from Scotiabank.

Viktor Fediv - *Scotiabank Global Banking and Markets, Research Division - Associate*

This is Viktor Fediv on for Greg McGinniss. And so now that you started integration of UBP portfolio and given your scale and relationship with current tenants, I assume you already had some conversations regarding expansion into newly acquired properties. So do you have a vision of what would be, let's call it, the Regency impact on UBP's portfolio occupancy within the next, say, 6 or 12 months? And how it translates into the combined occupancy impact?

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

I'm happy to take that one, and Alan can provide some color on the integration momentum and what you've seen within the portfolio in particular. The thesis of the merger is the same as it was. This is a leasing exercise for us with a portfolio of very high-quality shopping centers in very high-quality

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trade areas. That look very similar to what Regency invested in for the last 60 years of our company's existence. We saw an opportunity of a 200 basis points plus or minus differential in percent leased between the 2 portfolios at the time of the merger announcement. And our eyes are set on closing that gap. We don't see any inherent reason with the assets themselves or the trade areas within their -- that they exist -- that gap should exist. We think that the portfolio should slowly and over the next several years come to the same lease as the legacy Regency portfolio.

And to your point on when -- time, this isn't going to be an overnight impact on absorbing that 200 basis points of differential. But we do -- we've gotten off to a really good start. We really appreciate the integration efforts that are ongoing within the team to Lisa's comments earlier.

And Alan will take it from here but I think we're pretty excited about the prospects.

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes. I think Mike articulated it quite well. Our #1 goal is a very intentional approach to leasing. But we're also thinking about how can some redevelopments in the future be unlocked. And the near term, we recently executed a Dunkin ground lease where we're going to create a pad out in one of the parking lots of our shopping centers. So there are certainly opportunities like that, that the team is focused on. But in sort of the medium to long term, I think there's also the opportunity to evaluate some redevelopment opportunities.

But we had some interesting spaces that right around the closing in the merger were there. David's Bridal was in bankruptcy and the team has already executed to replace that space. We had a large vacant former Barnes & Noble, and we brought in a phenomenal local multi-store operator of Elicit Brewing and craft beer concept that the community is super excited about. Again, we've gotten that solved. And so the team is really hyper focused on the shop leasing side. And as Lisa mentioned, I am most excited about the great people that have been integrated but the platform, I think, really will pay dividends long term as well.

Viktor Fediv - *Scotiabank Global Banking and Markets, Research Division - Associate*

And probably as a quick follow-up. You already mentioned that there are probably some attractive redevelopment opportunities within that portfolio. So given where interest rates are now, what would be your kind of target IRR for redevelopments and acquisitions in developers like you mentioned, if you have an ex capital that you can deploy?

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

For those of you that remember records, I'm always going to sound like a broken record. Because yes, we acknowledged, obviously, our cost of capital. We acknowledged our cost of capital has increased. But again, free cash flow and the best development platform in the business, and we have proven our ability to execute and create value through cycles. And the only thing I would reiterate that Nick already said once, and this is where the broken record comes in, to the extent that we can invest capital that is going to be in shopping centers that are at least neutral but accretive to our quality, accretive to our future growth rate and accretive to our earnings, we're going to do it.

And I believe that, that is a competitive advantage for us, and it is something that we're going to -- again, from my prepared remarks, we're going to continue to play offense and be opportunistic, and do that when we can.

Operator

Next question is coming from Ron Kamdem from Morgan Stanley.

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Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Just a couple of quick ones. Just staying on the development front, I see the $440 million but in the presentation, you have another sort of $80 million at the midpoint in the next 12 to 18 months. Just on that $80 million, can you talk about are those pre-leased? Is there a sort of interest there? And what would it take to start those maybe sooner rather than later on your thinking?

Nicholas Andrew Wibbenmeyer - *Regency Centers Corporation - Executive VP & West Region President*

Appreciate the question, Ron. This is Nick. So you're absolutely right. We are hyper-focused, as Lisa has said, and we've been vocal about it continuing to lean into our development and redevelopment pipeline. And so the teams are very active in doing exactly sort of what you laid out and what I laid out in my prepared remarks, which is derisking these as much as we possibly can before we put a shovel in the ground. And so there is great tenant demand out there. So some of these deals we're just finalizing leases to get them preleased appropriately. We are very thoughtful of making sure we have our arms around costs and some of these deals we're finalizing cost. And then some of them are last -- our last legs of entitlements that we're finalizing.

And so once we check those boxes is when we put a shovel on the ground, and we are excited about what we're seeing in our pipeline of continued opportunities to use all of the tools in our tool belt to our advantage in these market conditions. And so do you expect to continue to talk about some great opportunities quarter in and quarter out.

Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Great. And then my last one is just on the 2024 considerations are just -- are super, super helpful. If I could just ask just 2 more. So one is just on bad debt, how is it trending this year? And given the opening comments, it doesn't seem like there's any reason we should think that should be different in '24. And then the last one is just on interest costs. Is there anything in '24 debt maturities or anything that we should be mindful of?

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

Ron, really, first, I appreciate the comments you made on the disclosure. The team did a phenomenal job with that and glad you appreciate it. Let me speak a little bit to those 2-line items from a '24 outlook perspective. Happy to give some color. Also, I want to be sure to say there's more to come when we put out our full suite of guidance and the full package as you're accustomed to, which we'll do in -- when we guide in February. The -- from a credit loss perspective, our outlook hasn't changed for the balance of this year, right? So from a full year perspective, we've affirmed the 60 to 90 basis point impact for full credit loss, which includes both bad debt expense or uncollectible lease income, together with the lost rents associated with bankruptcies.

To your question on ULI or bad debt, our historical run rate is about 50 basis points. We will do better that -- than that in '23, largely due to the first quarter of the year, and we've talked about this on that call, where we had -- from a cash basis tenancy, we had an unusually high collection rate where they just were paying some very late billings in that quarter, all of that's translating to a lower-than-average historical run rate. So -- and when I think about the second half of the year, it's actually kind of trending back to historical averages. So I would -- our eyesight kind of looking into '24 is going to probably start in that area of our historical averages of 50 basis points.

I am also happy you mentioned interest expense. In my remarks, I did try to lay out what our plans include looking into next year but let me just go through them again. Roughly $400 million to $450 million of planned financing activity. We need to refinance the $250 million bond that matures in June. Recall that, that's at a 3.75% interest rate today. We have some mortgages that are maturing next year. There's one larger mortgage that's roughly $80 million. So we'll add that to our financing plan. And then recall that we have the transaction expenses from the merger with UBP that we will also fold into that transaction activity.

All in all, that's $400 million to $450 million of needs and we see where the treasury is running at the moment, which is running in our favor. And just to give you a sense of where we think our indicative spreads are, we're probably in the mid-6s, plus or minus, and again, depending on where

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the base rates go from here and how our spreads have contract or expand from this point forward. But we feel really good about our ability to execute really efficiently in the capital markets, and it will just be a matter of our timing selection and where rates end up.

Operator

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

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

So my question is more on the anchor side. You talked a lot of -- your talked a lot about sort of limited supply, demand is still strong. But is there an opportunity to even push rents higher here upon renewals with anchors maybe from a mark-to-market opportunity or even higher rent bumps. Clearly, that's not happening overnight. But I guess, how are those conversations going with anchors today?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Samir, this is Alan. Thank you for the question. The answer is yes. Where we stand today, we have north of 50 anchor leases that do expire without options over the next 3 years. And so certainly, the team is hyper aware of for those that need to stay making sure that we're getting the appropriate market rent for those and where we can upgrade tenancy, we will certainly do that. So there is that opportunity. Demand remains strong. I think that's largely driven by a lack of supply.

And as we look at our Bed Bath resolutions, as I said in my remarks, the speed to getting those executed was faster, frankly, than we anticipated, and it's with some great retailers, REI, Restoration Hardware outlet, Burlington, just to name a few, where some of the deals that we've already signed. And so there is a pretty deep pool right now with the supply and demand scenario is certainly working to our advantage.

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

Right. I mean, I usually think about -- when you think about anchors, they usually pay lower rents, right? So I'm saying, is the industry ready to get to a point where they start to come up and start to pay market rents that are even higher than where they are today. That's sort of my question. So I guess you're starting to see...

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes, I -- yes, Samir. The answer is yes. I would just take you back again using real-time the Bed-bath as an example, we're exceeding 30% mark-to-market on the deals that we've signed. And so I think from that perspective, that would definitively tell you, yes, as we sit here today, we are able to drive those spaces to a much higher market rent than that of what's in place.

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

Got it. And I guess on this -- the rent spreads, the 30% you talked about, I mean, how should we think about the CapEx involvement to get that 30%, I guess?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

So Samir, I would say capitals in general relative to shop leasing have stayed pretty neutral. We're not seeing much in the way of enhanced capital there. I will say on the anchor leasing front, you do find that capital tend to be a little bit more expensive. But as you noted, the 30% obviously is

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the rent spreads that we experienced. And I think the balance of that embedded rent steps as being a keen focus is the success we're having right now.

Operator

Next question today is coming from Craig Mailman from Citi.

Craig Allen Mailman - *Citigroup Inc., Research Division - Research Analyst*

I want to go back to the transaction market. It's helpful, the 10% or north of 10% IRR on the asset you bought in the quarter. But I'm just trying to see kind of where your return requirements have trended with rates going higher on something that's more of a core asset versus a redevelopment opportunity like this? And your appetite for going into a lower initial cap rate knowing that there's upside acknowledging the fact that you guys to offer a good amount of free cash flow a year. So just thinking about your weighted average cost of capital and how you're kind of putting that all in the pot and kind of thinking about it?

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

Yes. And I'm just going to reiterate what I said before. We do look at our cost of capital and our cost of capital does inform and basically dictate what our required returns are. And to the extent that we can invest our capital and we look at something like Nohl Plaza, that is -- it is a redevelopment. It is like our development pipelines. And yes, they take time to get to the total return but we're looking at the total return to IRRs. And to the extent that we can invest our capital on an accretive basis and ensure that we are being paid appropriately for any risk reward, if you will, core versus ground-up development, we look at all of it, and accretive to our future growth rate, accretive to our quality and accretive to earnings. And if it checks those boxes, then we're going to do it.

Craig Allen Mailman - *Citigroup Inc., Research Division - Research Analyst*

I mean do you guys have like a lower threshold than where unlevered returns need to be for the deal to kind of move forward investment to me? Or is it deal by deal?

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

Again, if it exceeds our cost of capital and especially for our core acquisition, that's -- that works for us.

Craig Allen Mailman - *Citigroup Inc., Research Division - Research Analyst*

Okay. And then just separately on the leasing, everyone is talking about really good demand across the board. And I'm just kind of curious from your viewpoint being going through cycles before. Are you feeling comfortable with the expansion plans of retailers? Do you think some of them are expanding too quickly or just the lack of availability is maybe amplifying how good things feel relative to kind of the activity going on in your portfolio? Just kind of thoughts around that versus sort of the normal cycle.

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

I'll take it from a higher-level perspective and to the extent that Alan would like to color it up at the end. I mean, generally speaking, there are higher borrowing costs for everyone, and that includes our tenants. And I don't have a crystal ball. I'm not certain what the future holds. I can tell you, right now, we have not seen a slowdown in demand. Could higher borrowing costs and higher cost of capital for tenants slow their expansion

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plans? Possibly. But even if it does, we own high-quality real estate and some of the best real estate. Slowing it doesn't mean it's grinding to a halt and I am really confident that we will continue to capture new stores and expansion plans of retailers.

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes, Craig, the only thing I would add is, whether in good times or bad times, we refer to our 3 pillars of merchandising, place making and connecting to the community, and we're always taking an intentional approach to that. and always proactively and intensely managing these assets. And so we don't just sign the leases to sign leases, right? We are diving into operating experience, creditworthiness, synergistic enhancement to the overall assets. So I think with that mindset, it works in good times or bad.

Craig Allen Mailman - *Citigroup Inc., Research Division - Research Analyst*

Okay. I guess I was coming up from the standpoint of, do you feel like there's anyone that's expanding too quickly given what's going on in the macro? Or does it still feel people are appropriately kind of sizing their opportunity for the long term?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Let me kind of talk through some of the retailers that we're doing business right now. As I think about off-price TJX, Burlington, Five Below, we're doing a lot of business with them. They're fantastic. If you think about QSRs, First Watch and Cava relatively new public companies, Mendocino Farms, Philz Coffee, phenomenal. And I think they're very deliberate in their approach as well and great operators with strong sales performance. If you lean into the franchise concepts, we're doing a lot of business with the likes of Scenthound or the Stretch Zones of the world.

Again, they're putting really good operators in there, and we're seeing great success at that level. So all I can do, Craig, is look at the retailers we're doing business with, look at their volumes and sort of the productivity of where they are and look at the operators when it is a franchise concept. And I can just tell you, as we sit here today, I think they're making the right decisions. And I think our team is making the right decisions in partnering with those operators.

Operator

Your next question today is coming from Ki Bin Kim from Truist Securities.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

So certain retailers have highlighted potential consumer weakness trends even the grocers. So just from your vantage point, I was wondering if you saw any discernible trends from your consumers and how you want to slice and dice that?

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

We have not seen anything to date. And again, do believe that our sector while not completely immune is more resistant, and I hear you from the grocers, but the grocers have been experiencing pretty strong comp sales across the board. And so instead of growing at 8%, they're now growing at 3%. They're still growing. So we are not seeing that yet. And expect, again, given the property type, the necessity, the value the convenience we feel really well positioned and resistant to potential economic adverse impacts in addition to the trade areas in which we operate.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

Okay. And a quick one for Mike...

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

Tend to be -- Sorry, go ahead.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

For Mike, you mentioned that the bond that you might raise next year would be in the mid-6s. I was curious, is that based on like last week's treasury or this week?

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

Based on yesterday's treasury....

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

Our indicative spreads are 180. So 180, 185 plus or minus on where the treasury is and it's been moving around pretty rapidly. So it's looking better, Ki Bin, I maybe a little bit hesitant to declare victory here. But we're actively and very acutely monitoring the markets. We're going to execute when we see a really good opportunity for Regency to have a good execution. There's no -- we can be patient. We only have 20% of our overall debt maturing over the next 2 years.

So to the comments we made upfront, we're as well positioned as we can be even in a higher rate environment, given all the work we did over the last decade from how much debt we carry to when it matures. No one's losing sleep here over this year's execution and transaction activity, and we're going to act when it's -- when the window is there.

Operator

Next question is coming from Linda Tsai from Jefferies.

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

I know you don't normally disclose retention ratios but just wondering if you're running at peak or have even exceeded peak retention?

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

We're basically at slightly above average retention rates. I think we're in the 80% area. Is that right? And that's a little bit of a tick up on top of what our historical average is.

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

And then in terms of the purchase accounting impact, that you outlined on Page 8, noncash revenues and noncash expenses fully offsetting each other next year. In 2025 and beyond, how would those impacts flow through?

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

Interesting. It's going to -- for '25, I would -- it's fair to say it's going to continue to balance each other out. It's interesting. The weighted average life of that debt mark-to-market is significantly shorter than the weighted average life of the lease mark-to-market, Linda. So there is a point in time when that the debt mark will burn off prior to the leases but it's not in the next 2 years.

Operator

Next question is coming from Mike Mueller from JPMorgan.

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

Two questions. First, the small shops, 93.2% leased. I'm curious, where is that on a commenced basis? And then a second question. I know you haven't had Urstadt for that long but how is the leasing of the smaller centers in the buildings going from an efficiency standpoint compared to what you thought heading into the transaction?

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

I'll start on the second question. Mike, this is Alan. So it's working well. And I think a lot of that is back to Lisa's comment of not just the integration of the portfolio, but the integration of a lot of great people. So their people had intimate knowledge of some of the smaller assets that you're referencing. And just across the board, we've felt really great about the activity that's going on and the integration process. And so we're not seeing any differentiation of challenges or successes based on the asset at all, just in general, I think it's the rising tide with what you're hearing across the totality of the portfolio.

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

And just in from the stats department, 89.5% on the commenced shop rate at the end of the quarter.

Operator

(Operator Instructions) Our next question is coming from Paulina Rojas from Green Street.

Paulina Alejandra Rojas-Schmidt - *Green Street Advisors, LLC, Research Division - Analyst of Retail*

As you highlighted you have a muted exposure to Rite Aid but pharmacies are a material tenant of yours as a group, especially CVS. And -- well, the industry has been shrinking for a while. And to my knowledge, confirming from Rite Aid, you haven't been impacted by closures -- significant closures thus far. But what is your strategy looking forward for the industry as a whole? And given their size, what tenant categories come to mind as best back fills for the space?

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

I'll start, and then I'll let Alan finish it up with the -- especially with addressing the latter part of that question. But just generally speaking, when we think about pharmacy exposure, and I know some of you have heard me say this in prior meetings, and there's probably many of you that are on this call that didn't live through this. But I was with Regency when all drug stores were in line, and we had a lot of them and they moved out of line and moved out to outparcels and we were able to replace them, and we were able to replace them at better rents. Now that they're mostly on Outparcels, it's some of the best real estate in our shopping centers.

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And while -- again, I believe that we have some of the highest quality real estate in the country and we tend to have lesser locations or fewer locations when retailers do closed stores. But even when we do, it's an opportunity for us to re-lease. And as one of the questions earlier, address -- those anchor -- even junior anchor rents tend to have longer leases. And the rents will move and when we are not able to get access to them, so that gives us access to the opportunity to mark it to market. And given the location and the quality of the real estate, even within our shopping centers, we will replace it with really good tenants.

Alan Todd Roth - *Regency Centers Corporation - Executive VP of National Property Operations & East Region President*

Yes. And Paulina, I would add to that. So we have locations. And as you mentioned, one was on the rejection list that we're aware of, and one more was on the going out of business list. But I think just to speak to the quality of the real estate and how the team thinks and I tip my hat to our West Coast team, we're not sitting back waiting for these spaces to come back. We do have one deal that naturally expires in May. We haven't heard yet whether Rite Aid wants to reject it or not. But we have executed a lease already at a triple-digit rent spread. We love those low single-digit rents. And so that happens to be with a hardware store.

So as you think about retailers that are willing to go in there, it's hardware, so the home improvement, cosmetics, grocers, we may have a few that could make sense if we get access to them where we would split them and do some multi-tenant deals. But I think there's various different ways we can go. And as Lisa mentioned, these are some really good end caps or prominent locations. Some of them have drive-throughs. So there's a lot of different tools in the playbook based on the unit itself.

Paulina Alejandra Rojas-Schmidt - *Green Street Advisors, LLC, Research Division - Analyst of Retail*

Very detailed answer. And then on the transaction market, I know you have said there is no real deal flow. But given the rise of interest rates, I'm trying to put together the few transactions that have closed. How do you think the bid for strips has changed since last quarter at the margin? And we don't want to provide a numerical answer qualitatively. How has the dynamic changed? So has the market reacted to these higher rates?

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

Yes. I don't know that it's changed much at all since last quarter. It's changed, I think, from the -- in the beginning of the year, if you were to go back and reread our transcripts, we were starting to feel better and thought that there was more clarity to the stabilization of interest rates, which would then reduce. There's still a bid-ask spread because there's really -- there's -- I think it's clear that there's a disconnect between public market pricing and private market pricing. And that is going to continue as long as that we have the volatility that we have with interest rates and borrowing costs, which is why I'm really proud of the total return needles in the haystack that we were able to find this quarter. I don't think the dynamic has changed at all. It's still just a drip.

Operator

Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to Lisa for any further or closing comments.

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

Kevin, appreciate that. Thank you. Thank you all for your interest. Have a good weekend, and enjoy your extra hour of sleep or however you intend to use it. Thanks all.

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Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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