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# EDITED TRANSCRIPT

REG.OQ - Q1 2022 Regency Centers Corp Earnings Call

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**OVERVIEW:**

Co. reported 1Q22 results.



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## PRESENTATION

**Operator**

Greetings, and welcome to Regency Centers Corporation First Quarter 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Christy McElroy. Thank you. You may begin.

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

Good morning, and welcome to Regency Centers' First Quarter 2022 Earnings Conference Call. Joining me today are Lisa Palmer, President and Chief Executive Officer; Mike Mas, Chief Financial Officer; Jim Thompson, Chief Operating Officer; Chris Levitt, SVP and Treasurer; Alan Roth, Senior Managing Director of the East Region; and Nick Wibbenmeyer, Senior Managing Director of the West region.

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

In our discussion today, we will also reference certain non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, which are posted on our Investor Relations website. Please note that we have also posted a presentation on our



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website with additional information, including disclosures related to forward earnings guidance. Our caution on forward-looking statements also applied to these presentation materials. Lisa?

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

Thank you, Christy. Good morning, everyone, and thank you for joining us. We've had a great start to the year. Our operating trends are healthy, our investment pipelines are active and our balance sheet is strong. With this even further strengthening our core business and accretion from our transaction activity, our outlook for 2022 has improved from a quarter ago.

Our centers continue to benefit from positive structural tailwinds, including the strength of first-ring suburban trade areas, the greater amount of time that people are spending near their homes as hybrid work becomes more permanent and the growing emphasis among retailers on the importance of brick-and-mortar locations as a key component to last-mile distribution.

This vibrancy in the retail environment is evidenced by strong tenant sales and continued robust leasing activity, and we're successfully pushing rents higher as we continue to make progress getting our portfolio back to historical high occupancy levels. We do see and acknowledge the risks of inflation and continued supply chain challenges and labor shortages on our business. But so far, we and importantly, our tenants have largely been able to mitigate the impacts.

Jim will discuss this in more detail in a few minutes. We are full steam ahead on our value-creating development and redevelopment pipeline, which remains the best use of our free cash flow. We're excited to have started a new ground-up target and ShopRite-anchored center during the first quarter. And not only are we making great progress on this and our other in-process projects, but we continue to build our future pipeline. On the transaction front, the assets that we've purchased over the last year are very indicative and very much like those that we already own, high-quality grocery-anchored neighborhood and community centers, and we will continue to look for opportunities to invest incremental capital accretively in these types of centers.

We had a really successful and active first quarter doing just that. And as a result, we've raised our full year 2022 acquisition guidance to $170 million. And our largest acquisition so far this year, just after quarter end, we purchased our partner's 75% interest in 4 centers in our JV with CalSTRS for approximately $90 million. Similar to the buyout of our USAA joint venture last year, we saw another great opportunity to allocate capital on an accretive basis into high-quality assets that we know well.

While higher interest rates could eventually have more of an impact on private market pricing to this point, we've continued to see significant capital chasing grocery-anchored neighborhood and community shopping centers. Perhaps even more telling on the acquisitions we've completed in recent months are the other assets that we've seen trade at low to mid-4% cap rates for the type of high-quality, well-located centers that we own.

There remains a sizable disconnect between public and private market values for our asset class. Before I turn it over to Jim, I do want to acknowledge our recent organizational announcement that he will retire at the end of this year. There is simply no possible way to appropriately recognize him on this call or future calls for that matter as this is not his last, we are grateful that he'll still be with us for the remainder of the year. Many of you already know Alan and Nick, who will be stepping up next year to take on Jim's responsibilities. They're both on the call with us today, and you will see them at upcoming conferences and other events. With Jim paving the way, I'm confident this will be a seamless transition, and I look forward to what the future brings. Jim?

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

Thanks, Lisa, and good morning, everyone. I appreciate the comments and very much look forward to finishing my career here at Regency with strong 2022 results and Q1 was a great way to start the year. As Lisa mentioned in her remarks, the operating environment remains robust. We continue to see healthy foot traffic and strong tenant sales trends, particularly among our grocers and restaurants. New leasing volumes in the





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quarter were nearly 40% above the historical first quarter averages, and we are seeing terrific demand across all unit sizes, both shop and anchor space and across our portfolio geographically with a flight to quality being a driver.

We were pleased to cover -- we're pleased that over the past quarter, our same-property percent leased rate held firm at 94.3% and our percent commenced rate was actually up 30 basis points sequentially which is extremely positive, in my view, as we typically experience a seasonal occupancy decline in the first quarter of the year.

Year-over-year, our percent lease rate is up 170 basis points and percent commenced rate is up 120 bps. These positive trends really speak to the leasing progress we've made over the last year in addition to the quality of our centers and the hard work of our team. Not only are we making progress filling vacancies, but our renewal retention rate also remains ahead of our historical average. Blended rent spreads in the first quarter averaged 6.5%, which is reflective of the healthy demand for space across the portfolio. We also remain judicious in our leasing capital spend as we continue to be successful in our efforts to embed solid rent steps into leases which gives us an opportunity to keep pace with market rent growth throughout the life of the lease.

This three-pronged approach to growing rents, number one, focusing on contractual steps, marking to market at exploration and limiting capital spend is reflected in both our GAAP and net rent -- net effective rent spreads, which are both in the mid-teens for leases executed in the first quarter. The culmination of both our occupancy and rent growth trends is embedded in our same-property base rent growth, which will be the most meaningful contributor to same-property NOI growth in 2022 and going forward.

We do recognize the macroeconomic and geopolitical headwinds that persist, including inflation, supply chain issues and labor shortages. So far, in the trade areas in which we operate, most of our tenants have largely been able to pass increased costs through to consumers. So we have not seen a meaningful impact yet from the tenant perspective. Permitting delays and the availability and cost of materials and labor are potential impacts that we continue to monitor. But so far, we haven't yet seen a material impact on rent commencement dates as we've been working hard to try to mitigate these impacts on our business.

Examples of this include: helping our tenants coordinate permitting, source supplies, facing some approval processes and ordering long lead time items in bulk. In the context of our development and redevelopment projects and pipeline, we are diligently monitoring pricing trends and are conservatively underwriting cost escalations into our estimated yields. But that has not stopped us from moving forward and we're making great progress on our value creation pipeline currently with about $350 million of redevelopment and development projects in process.

At our East San Marco ground-up development project here in North Florida, we anticipate delivering the public store this summer with rent commencing later this year. The project started just over a year ago and has an expected stabilized yield that exceeds 7%. Even before delivering the anchor space, we are nearly 100% leased today with only one shop space remaining. This project is a great example of the leasing demand we are seeing for new grocery-anchored centers and top trade areas.

We were excited in Q1 to commence construction on another ground-up development project called Glenwood Green with a pro rata cost of $40 million and an expected stabilized yield of 7%. The project is located 30 miles south of New York City and Old Bridge, New Jersey and will serve as the retail hub of a new 250-acre master planned community. The 350,000 square foot center will be anchored by ShopRite, Target and a single-tenant medical building. All three will be operated on a ground lease and construct their own buildings, helping to mitigate our risk of cost escalations over the construction period. Both of these ground-up projects reflect our ability to continue sourcing and executing on value-add projects, attractive yields in this current environment.

As we consider new development and redevelopment projects for our future pipeline, we are excited to continue partnering with best-in-class grocers and are encouraged as they continue to expand their footprints in top trade areas. Overall, our team remains energized by the robust retail activity we are seeing across all regions and categories and I look forward to sharing more details over the next several quarters. Mike?



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

Thanks, Jim. Good morning, everyone. I'll start by addressing the first quarter and then walk through the primary changes in our 2022 revised guidance. We are pleased to report strong first quarter results and operating trends, supported by continued occupancy improvement, rent growth and accretion from investment activity. Additionally, we continue to collect previously reserved rents from cash basis tenants as uncollectible lease income was again positive in the quarter, impacted by about $9 million or $0.05 per share of prior year collections. And given continuing improvement in underlying credit conditions, we also converted more cash-based tenants back to accrual, triggering the reversal of straight-line rent reserves during the first quarter, which contributed close to $4 million or $0.02 per share to NAREIT FFO. This conversion impact was not included in our prior guidance range. We now have 14% of our ABR remaining on a cash basis of accounting and our rent collection rate was 93% in the first quarter for the smaller pool.

As we discussed on last quarter's call, there remains significant noise in our year-over-year same property NOI comparisons that will certainly impact the cadence of our growth rate throughout the rest of this year. In the first quarter, we had a relatively easy year-over-year comparison, primarily related to uncollectible lease income in the year ago period. Conversely, over the next 3 quarters, we are facing much tougher comps, especially in the second and third quarters as it relates to uncollectible lease income comparisons as well as an expense reconciliation adjustment that occurred in the second quarter of last year, all of which we have discussed previously.

Given this comparability issue, the best indicator of what is truly driving our business this year is same property base rent growth. You will find that for the first quarter and underlying our guidance for the balance of 2022. Base rent growth will be the primary contributor to our same property NOI and will most closely match our sustained growth trajectory. We wish our classic metrics could be less complicated but the reality of the accounting impacts resulting from the pandemic will continue to affect year-over-year comparisons through year-end.

Turning to 2022 guidance. We hope you've had a chance to review the details in our press release and business update slide deck, both posted to our website. On Page 6 of the slide deck, we've added a column to show the drivers of the $0.11 per share increase from our previous midpoint to the new midpoint of our NAREIT FFO guidance range. The drivers of the change that related to our operating fundamentals include a $0.03 positive impact from the 75 basis point upward revision to our same-property NOI growth forecast. The primary drivers include higher percentage rents in the first quarter, mainly from grocery and restaurant tenants as well as expectations for higher average commenced occupancy for the year, driven by more favorable lease-up progress and lower move-outs in Q1 than previously expected.

As Jim noted, commenced occupancy was actually up sequentially in the first quarter of this year, where it's typically seasonally lower. We also estimate an additional $0.02 per share of accretion from transaction activity, reflecting the net result of our incremental acquisition and disposition activity featuring the acquisition of our JV assets. The remaining increase in our guidance at the midpoint is related to the cash basis accounting adjustments I mentioned earlier. We increased our forecast for noncash revenues by $0.03 per share. primarily driven by the impact on straight-line rent from the conversion of cash basis tenants back to accrual during the first quarter. Recall that we only include these impacts and results in guidance on an as-converted basis.

Additionally, we raised our expectations for prior year collections to $18 million from the previous $13 million, driving another $0.03 per share of positive change to our guidance range at the midpoint. From a funding perspective, we raised our acquisition guidance to $170 million for the full year. We also raised our disposition guidance to $210 million. But as a reminder, $125 million of that is related to the sale of Costa Verde in January, the proceeds from which were already used to fund the purchase of the Long Island portfolio we closed in late December. The remaining $85 million of dispositions will in part fund our acquisition pipeline, combined with cash on hand and just over $60 million of net proceeds from the final settlement in April of our remaining forward ATM equity.

We also expect free cash flow after dividend payments and capital expenditures to be north of $140 million in 2022, which will be used to fund our development and redevelopment pipeline spend. Finally, we are in great shape with our sector-leading balance sheet and leverage profile and remain well positioned to continue taking advantage of growth opportunities. We ended the quarter with full capacity on our revolver and our leverage is at the low end of our targeted range of 5 to 5.5x. While the debt markets have been volatile and all-in costs have risen sharply year-to-date with no unsecured maturities until 2024, Regency can remain patient and opportunistic when accessing the debt markets in a meaningful way. With that, we look forward to taking your questions.



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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Craig Schmidt with Bank of America.

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

Great. I was interested to see your ground-up development at Glenwood Green. Maybe tell us a little more about the 250-acre master plan community that surrounds it? And also, it sounds like the grocers still want to open in ground-up centers. How are the municipalities receiving that request post-pandemic?

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

Craig, yes, the master plan has -- was -- basically took, I think, 19 years to get entitled. So it was a good, hard long slog with the landowner, has been working a long time. Heavy residential will be surrounding the retail hub that we're providing. I think the community is very, very excited to have the grocer and Target components. As indicated, our leasing activity has been extremely strong, having just broken ground. We're at LOI or lease negotiation with probably 30% of the shop space. So a lot of pent-up demand is how I'd characterize it. There wasn't a lot of retail growth in that marketplace or any kind of growth. So it's kind of that perfect diamond in the rough that we're able to react to and pull off a really nice retail development.

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

Great. And then just -- cap rates for the neighborhood grocery-anchored as well as the larger community centers, do you see them as still compressing or stabilized or expanding?

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

Craig, I'll take that. I think you noticed, it's Lisa here. I would say cap rates had been -- had stabilized, as I said in my prepared remarks, low to mid-4s for the neighborhood grocery, even community, grocery-anchored shopping centers, the type of shopping centers that we want to own. And they had been stabilized at that level for quite some time. And as I -- again, as I will reiterate what I said in the prepared remarks, we are not seeing that move yet. But with the -- because there continues to be a lot of significant capital flowing into that -- our sector wanting to own high-quality grocery-anchored shopping centers.

But as we continue to see the pressures, the interest rates rise, I would expect that there may be some pressure on valuations and you may have simply supply demand. You may have the leveraged buyers exiting the market. So with that, nothing yet, but certainly wouldn't be surprised if we see cap rates rise. I just wouldn't expect it to go much, I mean, 5%. So still instead of low to mid-4s, maybe you're in the mid- to high 4s.

**Operator**

Our next question comes from Michael Bilerman with Citi.



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**Michael Jason Bilerman** - *Citigroup Inc. Exchange Research - Research Analyst*

Lisa, I'd say Regency over its history has always been, I think, conservative realistic on the outlook, sort of grounded, I'd say, in reality. I guess given the macro environment today, how did you sort of weigh increasing guidance and benefiting from the core and all the leasing relative to the macro outlook, which you sort of commented a little bit is uncertain. Is none of that feeding into any of the data that you're seeing on the ground today and that's effectively why you had such good confidence to be able to lift guidance? Just sort of walk through that a little bit?

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

Sure. And I appreciate the acknowledgment, you put conservative with realistic, together. And I think our approach always has been one of reasonably optimistic with the quality of our company, the quality of our properties and the quality of our people overall. And so with that, you're absolutely correct. I mean we've been talking about it for several quarters now with regards to the pressures that exist in the macro environment with labor shortages, supply chain challenges and now -- and over the most recent quarters, inflation.

Without -- with how we have built the company and our portfolio, however, we are positioned to perform well really through all cycles, whether it's an inflationary environment, whether it's a recession and that is our properties are located in trade areas with really compelling demographics that we can benefit from a customer base that is able to withstand some of those cycles. And you've heard us talk about this in the past as well, and it will take -- in recessionary environments, there's often a case where consumers want to trade down and instead of going to higher end, more luxury, whether it's department stores or even restaurants, they go to their neighborhood community shopping centers for more value convenience and still want to spend money but back to close to their homes.

So with that, you -- the strength in our -- in the operating fundamentals really came through in the first quarter. And that's with all of these macro environment headwinds that we're already facing. That's what gives us the confidence. It's the quality of our properties. It's what we're seeing on the ground with the demand for the leasing. It's our ability to push rents in this environment. It's the ability for our tenants to continue to grow their sales and pass on price increases to their customers because of the trade areas that we operate in.

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**Michael Jason Bilerman** - *Citigroup Inc. Exchange Research - Research Analyst*

Did you have to sort of moderate any of your growth expectations because of the macro environment? Or is it just as you're sort of seeing it today? I guess did you bake in any sort of buffer, effectively?

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

Mike is giving me the, don't give too much guidance here, Lisa. So I'm going to hand it off to Mike.

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

I can take that one, Michael. if you think about the quality or the context of the raise, the $0.11 raise, it's really coming from two buckets, right, core fundamental improvement and then what I'll characterize as prior year cash accounting impacts. So on the prior year cash collection impact, those are known items that are under our belt. We collected $9 million of the now $18 million expectation that we had. We did raise that expectation. So maybe in light of some of the comments Lisa made, we still have confidence that we'll have a little bit more success collecting the rents that were previously reserved.

The noncash component, we're taking this day by day, it is as -- we're doing this on an as-converted basis. So we've converted 2.5% of our ABR back to accrual accounting. That came with $4 million of a straight-line rent reversal. We will take that incrementally from this point forward. What we're most excited about and have a high degree of confidence on are the core fundamental improvements in the same property portfolio, raising our commenced occupancy by 30 basis points in the first quarter. I don't want to call that a surprise, but it was a very confident type of metric for us as we thought about our plan.





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Do we have buffers in the balance of the year? We do, Michael. But by this time, your leasing plan is pretty known. Everything we're going to do from this point forward is going to be about 2023, and we're equally excited about that year as well. And then lastly, bringing home some of these accretive transactions. They're under our belt. We did raise our acquisitions guidance by $140 million. The large amount -- it's all closed essentially.

We do have one property under contract in the Northeast that we are working through due diligence, and we're confident that we will bring into the fold, but really not a lot of speculation there either. And on the funding front, fully funded with a combination of dispositions. We settled our ATM. We assumed a mortgage with some of the properties. So we feel good about the quality of that raise and our ability to deliver.

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**Michael Jason Bilerman** - *Citigroup Inc. Exchange Research - Research Analyst*

That's very helpful. Just as a second topic, Lisa, just on the transaction market, and you talked about this sizable disconnect between public and private. You talked about all the capital that's out there. And I recognized your joint venture partners are all -- everyone's got their own sort of time line about when they want to sell. But just sort of help reconcile a little bit. I think you and your peers have been very active of buying venture partners out and also continuing on the acquisition landscape, why not increase dispositions even more?

And I recognized you've lifted it to $210,000, but you're still in an -- you've narrowed your net disposition guidance rather than expanding it. If this disconnect is so wide, why not be even more aggressive today at liquidating the bottom of your portfolio? And I recognize you have always [sold to] the bottom of your portfolio, so there's left of it. But just sort of help walk through why not be more aggressive on the disposition side?

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

We -- aggressive is the word, I would say, because I do want to remind everyone that we have, for as long as I've been at the company, it's about 26 years, which is essentially modern era Regency, we have remained committed to selling 1% to 2% over time of our portfolio annually. And it's usually focusing -- as you know, focusing on lower growth, nonstrategic. After the GFC, we actually accelerated some of those sales and sold even more. And since that time, the quality of our portfolio really has improved and the need to sell up to that 2% just wasn't there when we looked at what falls into the nonstrategic lower-growth bucket.

So we've been more in the 1% area and in some cases, using that nonstrategic as a source of capital to trade into the types of centers that we do want to own long term. So I mean it sounds like it can't possibly be true, but we really like our portfolio. And there are -- we are looking to buy centers that look like what we already own. So when you get much above that 1%, then we're starting to sell what we want to buy. And we do want to grow. We believe that there are real economies of scale in our business, both from an operations perspective and also with tenant relationships.

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**Operator**

Next question is from Juan Sanabria with BMO Capital Markets.

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

I was just hoping you could talk a little bit about the rent growth you are seeing in the markets. You kind of touched on it a couple of times in the prepared remarks. And maybe if you could just benchmark the increases you've seen versus 2019 pre-COVID levels? And maybe give us a sense of the variability in that growth in markets like is South Florida up 2x of what the Northeast is up, just to get a sense of what markets are really hot and they've taken share, if you will, as a result of the pandemic?

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

Yes. Juan, this is Jim. I'd say we're really pleased that the 6.5% where we ended up this year with 8% being attributable to the new leases. Quite frankly, as I step back and look, there really are no outliers this quarter that were driving that, which was impressive to me that it felt like we were across the board in all regions, really hitting kind of a target growth number. I think it's indicative of a healthy portfolio across the board. And I really can't point -- I think as I look back over -- compared to '19, I think we're back to those same kind of rent growth that we experienced in pre-pandemic times.

I would like to remind, as we look at rent growth as a whole, it's kind of the three-pronged approach I talked about. It's getting those embedded rent steps, which we've been very successful. This quarter, we had 80% of our deals had bumps in them and 97% of new deals this quarter had embedded rent bumps. Obviously, mark-to-market won't get the opportunity on expiring leases. Judicious spend of capital. All of those kind of combined to that net effective/gap rent that we -- that's probably what I look at more than anything is that's a more long-term real growth kind of metric and we're getting back to where we want to be and where we historically operated, in that 13% to 15% range right now.

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

And then just on the leasing versus commenced, you have a 230 basis point spread. How should we think about that being captured over time and what's truly additive from a kind of a base rent perspective as we think about the balance of the year?

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

Sure. Juan, it's Mike. So you referenced the 230 basis point pre-leased percentage. Just through throw some -- I will throw some stats at you and then we can talk about how we see absorption going through the year. That equates to about $33 million of rent when you include redevelopments. We do disclose the amount in the back of the supplement at $6 million for the quarter at a point, that is without redevelopment. So that would -- the $33 million would be all in through redevelopment.

From a timing perspective, we should get about 2/3 of that by year-end. And the balance we are seeing coming online before the -- within the first half of next year. And then to give you some further context on that pre-leased percentage, we are running higher than historical averages, where we're in the plus or minus 175 basis point range. So we're very comfortably leasing space and importantly, delivering space. As we think about absorption for the balance of this year, last quarter, we talked about 75 to 100 basis points of increased commenced occupancy supporting our plan. I'd say now with a really successful first quarter under our belt, we've taken that 75 basis points off the table. So we're looking at a plus or minus 100 basis point rise in commenced occupancy, supporting our same property growth rate.

And then beyond that, and not to dwell on '23 or any to give a '23 outlook at this point in time, but we're not at our peak occupancy levels. We -- our eyes are on 96%, and we think we've been there before. The portfolio is as good as it's ever been, absent a macroeconomic environment, we don't -- there's no one around this table that doesn't believe we can't get back to those levels, but that's a lot -- I just said a lot in one simple word, absent a macroeconomic environment. There's a lot -- there is uncertainty out there. We all are aware of it, but the team is highly focused on leasing this portfolio to its maximum potential.

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**Operator**

Next question comes from Rich Hill with Morgan Stanley.

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**Richard Hill** - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

That last tidbit about occupancy is really helpful. Just to expand upon it. At the risk of asking for guidance, what's sort of the cadence of getting back to 96%? Is that a late 2023 thing? Is that a 2024 thing? How do you think about that?





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

Sure. I think it's pretty simple. I mean we're about 200 basis points from our top end as we see it, about in that area, and when you're looking back kind of post GFC, Rich, we've absorbed 100 basis points in our best years kind of from a velocity standpoint. This feels like that type of environment we're leasing. The teams are busy, the pipelines are full, and we're -- and the teams are just putting a lot of ink to paper. So about 100 basis points is how quickly we think we can absorb space on an annual basis. So that would put us in that end of '23, early '24 type of time frame.

**Richard Hill** - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

Got it. That's helpful. And so as you think about getting back up to peak occupancy, then this becomes a really stable, attractive business based upon renewals. What do you think sort of the new normal is for renewals? Is this like a 5% to 6%, 5% to 7%? Or do you think there's some level on which we start to normalize back to, call it, something lower than that?

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

I'm not sure -- Rich, I'm not sure we understand the 5% to 6% or 5% to 7%...

**Richard Hill** - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

Yes. I'm sorry I'm personally just throwing numbers out there based upon some commentary that...

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

Okay. So rent spreads, not renewal, right? Rent spread?

**Richard Hill** - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

Yes, yes, yes.

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

Yes. I think as I've always looked at this business, our rent spreads track our occupancy. And as we get closer to what Mike described as full occupancy in that 95%, 96% range. If you look over our shoulder, I think those rental rates and expectations rise as that occupancy and that lack of available supply is there. So I would see us as that curve goes up, I believe you'll see our rents track that.

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

And Rich, don't forget that, that's cash leasing spreads on top of contractual rent increases. So most of our renewal activity will be in shop space. We're getting very high. That's where we're getting the highest frequency of contractual increases. So that's on top of 2% to 3% annually.

**Richard Hill** - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

That's helpful. And then one final question for me. I appreciate the cap rate disclosure. Could you just walk through what unlevered IRRs look like at this point? Where are those penciling out?



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

With regards to -- again, in my prepared remarks, I talked about some of the transactions that we observed happened, ones that we didn't participate in, on our underwriting, we did see some single-asset portfolios trade in low 5 IRRs. We've been -- we were opportunistic in the acquisitions that we've closed and we've discussed and talked about on our underwriting where we have been successful, we've been north of 6%. And as we think about our cost of capital, and a lot depends on your underwriting assumptions and what's your terminal cap rate. But if you remain pretty steady with a kind of 50 basis points going over the -- over but going in a 6% unleveraged IRR had been sort -- our hurdle, given our existing cost of capital. Do we expect that that's going to creep up? It could creep up. I mean we're, obviously, seeing the cost of debt rising.

**Operator**

Our next question comes from Samir Khanal with Evercore.

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

Mike, on percentage rents, it came in a little bit higher than we thought in the quarter. I guess how are sales and traffic trending sort of post 1Q and maybe into May here as we think about that line item? Just trying to see if there is sort of upside to that number.

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

Sure, Samir. Well, I'll start with -- maybe take some wind out of the sails. Generally, it's a pretty small line item for us. It's in the historically $8 million range in total. That's less than 1% of our total revenues. And interestingly, we get historically about half of that in the first quarter. So we had a great first quarter. Restaurant sales were a featured component of our beat internally on percentage rent. Grocers were the other component. We are optimistic that the balance of the year will also have similar results throughout the portfolio, but that opportunity is significantly outperforming percentage rent, I think, it has largely been taken in the first quarter.

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

Okay. And then I guess my next question is on this -- the $18 million of prior year reserves, which you took up as part of guide. Can you remind us what that total bucket is at this point that you can sort of collect from? And what percent of that total bucket is tenants that are still active in your portfolio?

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

Yes, so we have that reserve balance on our Page 34 of the supplement. And you'll see, at quarter end, we were at $41 million. So that's your starting point where your question is targeted, but let's break that down. And first and foremost, we're guiding on the numbers. So our expectations are plus or minus $18 million. So please start with that. Can we do better than that, I think is the question. About half of that $41 million reserve, I would characterize as normal course. If you think about our reserve as a percentage of our open AR historically, that's about normal course activity.

The balance of that, I'd put it into 2 buckets. 1/4 of it is in our guide. We are expecting about $9 million in the balance of the year. So that's about 1/4 of that reserve. And then the other 1/4, Samir, that's the "wildcard" that I think you're looking for. Again, we're guiding on the number because we want folks to be careful with our expectations. We are making a ton of progress in working through the resolution of receivables. It's primarily a West Coast ball game at this point in time. Nick and the team at West are doing a great job working through the pile, and we could have some more abatements in that number.





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So we are characterizing that as an unknown or as a wildcard for that reason. We could also experience those collections in 2023. Half of that 25%, so about $5 million has already been agreed on with the tenants to defer into 2023. So I think we're getting to the point where the outperformance on that guided line item is certainly going to start to shrink and the opportunity will start to diminish from this point forward.

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

Got it. That's very helpful. And last one, if I can, if I can take one more here. I guess for Lisa, Regency is one of the landlords to Whole Foods. I guess what is the real estate strategy for them at this point? There's been some headlines about the closing of few stores, not many, but just curious as to what you're hearing from them, especially with Amazon making the headlines recently.

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

Samir, my first advice to you would be that I think it might be better to get on a Whole Foods conference call and ask them that question, what their real estate strategy is. What I do know is that -- we have a great relationship with Whole Foods and with Amazon as well. And they are certainly, as you know, committed to physical locations and growing their footprint in both brands. They, like every other retailer, are going to ensure that they are operating the most productive stores and the most profitable stores. So we still have great confidence that we're going to continue to be able to grow our footprint with Whole Foods and also as Amazon grows their footprint with them as well.

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**Operator**

Our next question comes from Michael Goldsmith with UBS.

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

As your leasing momentum continues and it seems on track to return or exceed prior level, like how do you think about passing the baton to grow through acquisition development or redevelopment? And does some of the announcements that you did with this quarter kind of reflect this forward-looking opportunistic view?

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

Let me start and I'll open it up to Mike or Jim, if they want to add to it. When we think about our business model and how we think about growing, it starts with our free cash flow and we are estimating that to be in the neighborhood of $140 million. So if you just assume that we even add debt to the extent that we remain leverage neutral, we essentially can -- that grows to over $200 million of capital that we can invest and grow the company. We've said it numerous times. I said it again today, the best use of that capital is into developments. And we -- I do believe that we have the best development platform in the business. We've got a successful track record, and we're going to continue.

I mean, and as we talked about this quarter, we started Glenwood Green, East San Marco started just over a year ago, in the middle of the pandemic. We continue to rebuild that pipeline. We did hit the pause button. It was very brief, but we continue to rebuild that pipeline, and that will be the best use of our cash flow. And especially when we're looking at returns that are 200 to 250 and sometimes 300 basis points higher than acquisitions. So we will continue to do that. We also will invest back into our own shopping centers and redevelopments.

We've had a lot of success with acquisitions. And when -- we will always be opportunistic with acquisitions, as I've talked in the past, it has to check really three boxes. It's going to be accretive to or at least looks very much like the quality of our portfolio, accretive to our future growth rate and accretive to earnings. And then once we find those opportunities, we have those presented to us, we look at how can we fund it with our free cash flow going to development. And that's when we will then evaluate other sources of capital.





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And you've seen us use dispositions, both low cap rate, dispositions, monetizing assets that are nonstrategic and then also tapping the equity market when it makes sense. We also have positioned the balance sheet intentionally to be able to use it, at times, when we can't tap those other sources of capital, and we need to lean in. As Mike said in his remarks, we are operating now at the low end of our target leverage. So we have capacity. We can continue to buy and buy accretively.

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

That was very helpful. And my follow-up is on kind of the evolution of trade areas, the pandemic has generated some population migration and that's probably helped your suburban trade markets. And then now we're at a period where there's been elevated gas prices. So I was wondering, as you look at your traffic data and where your customers are coming from to visit your centers, has that changed since the increase in gas prices? And if so, what are the implications from that?

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

I don't know that there's enough data yet to really make any conclusions as to what increased gas prices have done to our traffic because we're not seeing any significant changes. So that -- but it's still early. But I'd like to -- you asked that question in such a way that I'd like to just remind everyone what we have seen, because of not necessarily increased gas prices, but with pandemic-related kind of structural trends, but that's a tailwind. It's been a -- it's a tailwind for our first ring suburban trade areas. We continue to see people staying at home more often and staying close to their home.

I saw a research report for another company, that's a health system that I'm involved in. People spend 90% of their time within just a few miles of their home. So if they're home more often, that number could even grow and then they're going to essentially visit our shopping centers for their needs, for their value of convenience. And we've actually seen those trends provide tailwinds. The second thing is the renewed confidence with the retailers. Because if you go pre-COVID, and we've talked about this before, there were still a lot of question marks about last mile distribution and how could they service their customers. A lot of those questions have been answered. The best way to do it is from locations close to the consumer's homes, it's the most profitable.

They really -- they knew they wanted the customers to walk in the door. That is the most profitable, but a lot of them had a little bit of work to do to figure out their overall systems and supply chain so that they could service their customers from the stores and they've made great progress. And that's also -- that is a significant tailwind for neighborhood community shopping centers.

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**Operator**

Our next question comes from Derek Johnston with Deutsche Bank.

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

You executed more meaningful JVs this quarter for property portfolio, and that follows the USAA JV last year. Is this strategy taking into account the macro backdrop and really the currently compressed cap rate spreads to the 10-year? Are you viewing JV acquisitions as more accretive and less risky versus traditional acquisitions, especially given private market cap rate question marks?

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

I'll take it. Derek, it's Mike. I would characterize our JV acquisition opportunities as more circumstantial than strategic, but I don't want to dismiss the strategic part of it. We had 2 smallish JV entities in effect with -- that were long standing. I think the RegCal JV, this is over a 15-year relationship between the 2 entities. And when they -- given their size, given -- to your point, maybe some of the backdrop elements, it just became clear that





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monetizing and reallocating the capital was the best choice for our partners. And then when that decision is made, we're likely the best buyer for those assets.

So does it de-risk our underwriting? Yes. We've known these properties for a long time. In fact, the properties in the USA partnership, although the partnership wasn't that long dated, we've owned those properties for nearly 20 years. So we know them extraordinarily well. It does make for an easier underwriting. There is an end to this strategy. That's why I'm not calling it a strategy. We have -- we still have remaining joint ventures. We have great partnerships with those partners, long-standing relationships. These are much bigger vehicles.

I think we've got about $4 billion in gross asset value across 2 primary structures, one of which we just bought into through the Naperville, Chicago transaction. So obviously, 2 partners who are dedicated to the space really like the partnership, the service that Regency is providing, really like the grocery-anchored shopping center arena. So I don't know that we see these 2 circumstances extending much beyond what we've transacted today.

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

That's helpful. And can we take a second on leasing. Really where the demand is coming from? What categories are leading? And more so, how does the pipeline differ between anchor and small shop demand right now? Are both firm or somewhat evolving? And have you loosened underwriting standards for small shops to drive occupancy towards 96 at this time? And the current demand you're seeing, does it really seem to have runway in your view through this year and beyond?

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

Derek, yes, I think the pipelines -- let's start with the pipeline question, the pipelines are -- continue to be robust and in line with -- as we look over our shoulder, the great leasing we've done year-over-year, the pipeline appears to support that continued level of production. It's equal in shops as well as anchors as we look at what our availability is. We've got good names associated with the vacancies and targeted uses. Lisa indicated the work from home has been, I think, is a structural change to our business and has really been a driver to our demand, I believe.

Uses, it's the ones we've talked about in the past. It's health and wellness, the medical sector, cosmetics, like the Sephoras. Restaurants, especially the fast casual is very high demand; pet uses; off-price players; and certainly, as we discussed, our grocers. And again, I think I've mentioned it earlier, it's really across all regions. We're not seeing one market that's hotter than others. There's really good solid demand across the board. And again, the leasing production has been steady across the board. So it really feels right now -- feels really very strong, the direction we're going and the level of production that we've experienced.

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**Operator**

Our next question is from Greg McGinniss with Scotiabank.

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

You always give such comprehensive opening remarks and answers to questions, so I apologize if some of this has already been covered. But in regards to the increased same-store NOI growth expectation is driven by increased commenced occupancy. Was that driven by a greater-than-expected tenant retention so far this year? Or have you been able to get tenants in the space much faster than originally anticipated?

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

I think it's -- Greg, probably more of former than the latter, that 30 basis points of sequential increase in commenced occupancy, that was a really positive sign for what '22 had to offer to us. And remember, in the context of our opening initial guidance, and it's hard to remember 3 months





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ago, you still have an Omicron wave kind of rolling through. Q1 is traditionally a weaker quarter from a volume's perspective as well as a retention perspective, but that's 4 consecutive quarters now of greater than average retention rates at Regency. So that really is what's underpinning that 75 basis point move up together with the previously discussed benefits from percentage rent.

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

All right. Okay. And then how are you mitigating the impact of supply chain delays and increased costs when repairing spaces for new tenants?

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

As I indicated in the remarks, I think we're trying to use every lever we can find to try to expedite and help our tenants. We've got tenant coordinators. We've got expeditors. We're trying to get demo permits before anything else we can get in there and make sure we can stay ahead of the curve as much as we possibly can. And the one thing about the pandemic, everybody has learned to be quick on your feet to pivot and to make do with what you have.

And that's what we're seeing in this environment as well, that -- retailers need to be open. They're going to find a way to get open. We're going to help them find that way as fast as we can. We've got a real sharp eye on RCD dates. That's kind of our Bible. So we are trying to do everything in our power to make sure we can help expedite the best we can to make sure those tenants get open and start paying the rent. And so far, we've been successful. We haven't -- we're not seeing [it slide].

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**Operator**

Our next question is from Linda Tsai with Jefferies.

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

The collection of prior period reserves is $18 million. I assume there's a minimum amount of conversion to straight line back to accrual that's associated with the $18 million. Is there a rough guideline for how much might not be baked into guidance?

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

Yes. Linda, a good question. Let me clear that up a little bit. So the $18 million guidance is cash collections on previously reserved rents. So nothing to do with conversions of straight-line rental income. That is a separate line item. We are -- our guidance on that line item is effectively 0. We are on an as-converted basis. We had $4 million in the first quarter.

I will offer, as I did last quarter, a little bit of a heads up, or had not, as to what could potentially come through on straight-line rent. We -- when we look through our AR and look through our receivables, there's some visibility that maybe $2 million to $5 million of potential conversion impact on the noncash FFO line item. From a cadence perspective, I can't necessarily predict which quarter that will occur in, but we do have some level of comfort with that range that I would encourage you to think about that with respect to that as-converted guidance that we're offering.

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

And then in your February business update, you showed traffic being above 2019 levels, but having dipped in January. Any color on how traffic has trended since at your centers?

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

It's essentially flat. We're not trying to take away any color. And in fact, a lot of that data is pretty widely available to the public at this point. But as Lisa indicated it earlier, we're not seeing any dramatic shifts in our traffic patterns and very comfortable with them having returned to 2019 levels.

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**Operator**

Our next question is from Mike Mueller with JPMorgan.

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

Just a quick one here. Wondering, are you seeing any significant differences in national versus local leasing dynamics as you move your shop lease rate above 90%, I think it was 90.3% right now. I mean how should we think about the mix of national versus locals driving that?

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

Mike, our mix is really the same as we've always had. We're seeing good local operators. -- they're kind of bread and butter for small shop space, and we continue to see good entrepreneurial players in the marketplace that are really -- that's the livelihood. That's the beauty of small local operators. That is their livelihood. National folks are certainly -- national regional are certainly -- have a good open-to-buy demand as well in growing their footprint. So -- but our mix is really very, very similar to what we're used to seeing. No real change.

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**Operator**

(Operator Instructions) our next question comes from Tammi Fique with Wells Fargo.

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**Tamara Jane Fique** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Congratulations. Jim, you mentioned a flight to quality being a driver of leasing volumes. I'm wondering if you're seeing your lease rates in your submarkets outperforming other properties in those markets. And I'm curious if you're seeing new demand coming from tenants that are moving locations or opening new stores and if there are any interesting trends to note there?

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

Thank you for the comment, first. Flight quality, it's hard to judge, but that intuitively of what was from a color standpoint, we see people trying to upgrade. Any time there's any kind of downturn in the business, people like to take advantage of that and move towards quality. You see it in the office side, retail side, it really doesn't matter. As far as our ability to grow rents, I think is evidenced in what we've put out there. Yes, we're seeing opportunities to kind of grow rents as those tenants move towards our marketplace.

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

Yes. The only thing I would add, Tammi, is if you -- when you -- I think you asked a question about comparable to other kind of -- the competition, if you will. If you were to layer historic Regency's percent leased against the market, percent leased, there will always be a pretty large gap, and that's just based upon the quality of our portfolios. We are much more highly leased than the market generally. And then through the cycles, my -- and I haven't done this, but my guess is that when you look at cycles, because I can go back to the GFC, and I do remember that we lost the least amount of shop space versus our public peers that report it. Not everyone reported that at the time. So my guess is that in tougher economic times, that gap actually widens and our percent lease is even higher.





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**Tamara Jane Fique** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Great. And then, Mike, I know it's not in guidance going forward, but maybe going back to the conversions to accrual as we think about the 14% ABR on a cash basis, can you just remind us how that compares with where you were pre-COVID? And then the $2 million to $5 million you just mentioned, I mean is that a number forward this year or the total potential? And then maybe just one more on that, given the macro backdrop, are you likely to keep more tenants on a cash basis at this point?

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

Yes. That's a packed question there, Tammi, but I certainly -- I think your third -- your first and third pieces of that kind of go together. I appreciate the question. What was your cash basis percentage pre-COVID is a very good one. Part of the challenge here, historically speaking, but the rules have changed. The GAAP application has changed over the course of time, too. So it is hard for me to look back at those numbers and think of them as a comparable type of target, so to speak. But I will say, it was in the mid single-digit range from a percentage of ABR perspective. So 14% going to somewhere in that mid-single digits is what I would expect to happen over time.

The comments on the $2 million to $5 million. Those could easily slip into '23, but I'm getting that number with -- I mean, we're not only giving that outlook out there because we do think there's a potential for that to impact 2022. I wish I could give you more clear guidance on which quarter. Unfortunately, we just can't. When those tenants meet the thresholds and the policies that we've embedded into our accounting infrastructure, they will convert to accrual and then the resulting impact will occur on the noncash side.

**Tamara Jane Fique** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. That's helpful. And then you have been, obviously, acquiring interest from your JV partners, and you also did some secured loan JV refinancing in the quarter for other JV assets. I mean it sounds like you don't have a particular interest in acquiring additional partner assets at this time, but it does look like you have some additional maturities on the unconsolidated side next year. So I'm just wondering if you can talk about your discussions with those partners and if you expect to refinance those? Or will those be assets that will be sold?

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

No, I appreciate that. Yes, the expectation largely is that we would refinance those maturities when they do come due. Let me give you an interesting point, with respect to you tying that into our appetite for JV acquisitions, these are single asset mortgages, and there is permitted transfer language within those mortgages. So there is no -- from a partner's perspective or Regency's perspective, there's no downside to placing that financing on the asset. It doesn't inhibit either one of our ability to transact. They're just assumable to either party.

Goes back to my comments before, oftentimes, Regency is the best buyer for these portfolios. That is one of the reasons why that's true. There is -- the vast majority of our exposure is in '23, not '22. And I would say that there's good demand as there is on the equity side and buying shopping centers, there continues to be good healthy demand for financing, grocery-anchored shopping centers. We fit the product type. We fit the credit profile that many of the life companies are looking for on the secured mortgage side, and we had success in Q1. I don't see why we wouldn't have success refinancing those maturities when they occur.

**Operator**

Our next question is from Chris Lucas with Capital One.



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**Christopher Ronald Lucas** - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

Just a couple of follow-up questions. As it relates to the cap rate commentary, Lisa, that you made earlier in the call. Just curious as if there's any geographic differences. In other words, have the coastal gateway markets maintain the sort of lower cap rate, that relative to the primary Sun Belt markets? Or is that, that gap has effectively gone away?

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

It's still very much trade-area driven. If the trade areas look similar, cap rates are going to look similar. So there's really not much of a difference for the type of quality that we're looking to acquire.

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**Christopher Ronald Lucas** - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

Okay. And then you mentioned the strength of the tenant retention this quarter and trailing a couple of quarters. I guess just curious from your long historical perspective there. Has there been a better time for tenant retention? If so, what was that comparable period? Just kind of trying to figure out where we are relative to cycles.

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

I don't think there's -- on the margin, it may have been a little higher.

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

I could see Jim reflecting back on his 41 years. That's a long time to think about.

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

But I guess in my experience, what I would suggest. I think tenants are a little stickier in the last 4 quarters because of what we've been through. As I look to the future, I think that 75% is our -- has been our typical average. I kind of look at that as a reversion to the long-term stabilized at least for our portfolio. I think the way we asset manage, the amount of internal redevelopment that we do. There's always going to be a level of, what I'll say, churn or turn within the portfolio that 75% seems to be the right number from a retention standpoint.

So I'm happy to see that we're a little above that today because I think today's environment really is appropriate for that. But as we as that supply goes away and we get back to that 96% leased level, and we're doing the things we can -- like proactive asset management perspective, like I said, that the 75% is probably a runway that I'd look at it.

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**Christopher Ronald Lucas** - *Capital One Securities, Inc., Research Division - Senior VP & Lead Equity Research Analyst*

Okay. And then I guess maybe this will be for Mike. Just on the percentage of rent number and then just sort of the outlook. I mean, we've seen, obviously, food inflation at pretty high level. Restaurant inflation, particularly for sit-down has been significant. I guess when you look at your lease structures, are there -- if this persists, is that an opportunity for a meaningful increase in percentage rent collections over time? Or is that really just not part of the lease structure that is an impactful component of potential future revenue?

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

I'm going to turn that back to Jim. I think it is probably more appropriate for him to respond. Is percentage rent in light of the inflationary environment becoming more of a discussion item from your perspective in your lease negotiations?





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

Yes, I think -- I would say probably it is. I think, quite frankly, reporting sales in general is -- rather than percent rent, but just reporting sales in general is what we've seen over the last 10 years has become more proprietary from anchors' perspective. It used to be a given in the grocery business. But of late, tenants don't want other people to know how they're doing. So it's challenging. So I think over time, the percent rent, we still try to push it. I think restaurants is still probably a very good industry that we can get that.

But over time, I think that will become and even less, as Mike indicated, it's not a big piece of our business today, and I think that will continue to dwindle a little bit over time. And the other thing that happens is as we have an opportunity to redevelop or restructure an anchor deal and they were paying percent rent, we roll that into new base rent and reset the bar. So that also is another avenue that just continues to reduce the amount of percentage rent that we can expect to get long term.

**Operator**

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

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

I just want to thank you all for joining us today. And I'm so used to having a call on Friday, it's Wednesday, but I'm going to say it anyway, even though we're days away. Happy Mother's Day to all the mothers out there and enjoy your weekend. Thank you all.

**Operator**

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

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