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EDITED TRANSCRIPT

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PRESENTATION

Operator

Greetings. Welcome to the Regency Centers Corporation Second Quarter 2022 Earnings Call. (Operator Instructions) And please note that this conference is being recorded.

I will now turn the conference over to Christy McElroy, Senior Vice President, Capital Markets. Thank you. You may begin.

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

Good morning, and welcome to Regency Centers Second 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 Leavitt, 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.

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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 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. Good morning, everyone. Thank you for joining us today. We are pleased to report strong second quarter results, reflecting a still healthy operating environment. Leasing demand continues to be strong and tenant move-outs remain light, driving occupancy and rent growth higher. We acknowledge the increasing macroeconomic headwinds and, in our view, that makes our results all the more notable. We know that we're not immune to the adverse impacts of inflation, interest rate increases and recessionary risks, all of which could have implications for us, but we very much believe that we are extremely well positioned to weather any economic storm.

For the remainder of this year, as a result of that, we are very confident in our forecast as reflected in our guidance increase. And looking beyond 2022, Regency's portfolio and balance sheet were built for times of greater uncertainty. Everything we've done over the last decade and every decision we've made positions the company not only to play offense and drive growth when times are good, but to successfully navigate challenging macroeconomic environments. We are designed to outperform through cycles, evident most recently in the resiliency of our performance through the pandemic, and how quickly we were able to pivot back to offense and return to pre-pandemic levels of NOI, earnings per share and leverage.

Importantly, in the context of the current environment, the demographic profile of our trade areas is supportive of a consumer that has more cushion to absorb pressures from inflation and economic softness. And in times when tenant bankruptcies may be elevated, our locations tend to be among the best-performing, limiting occupancy decline.

Additionally, current positive momentum is a source of tailwinds into 2023 and beyond. First and foremost is our strong pipeline of leases, both executed and those in negotiations. Also next year, we will see an even greater benefit from development and redevelopment NOI coming online. And finally, as we've been saying, our dense suburban neighborhoods and communities continue to benefit from structural tailwinds stemming from post-pandemic migration and hybrid work.

Where we have begun to see some impact from the current environment is in the capital markets. But again, we are extremely well positioned. The strength of our balance sheet and our low leverage afford us the luxury of not needing to raise capital when it's not advantageous to do so. And our dry powder and ready access to capital give us a competitive advantage should opportunities arise.

A prime example of that was the execution of our share repurchases in the second half of June. We saw a window of opportunity to essentially buy our own high-quality properties in a mid-6% implied cap rate range, a meaningfully more attractive price than what we would pay for anything comparable in the private market today. We were uniquely positioned to take advantage of that dislocation given our balance sheet strength and liquidity position.

We can't control the macro environment but we can control our response to it. As we sit here today, we remain confident in our operational strategy and our balance sheet strength regardless of the macro backdrop.

Closing out, I'd like to comment briefly on ESG. As many of you know that have been covering Regency for a while, we take pride in having best-in-class, sector-leading environmental, social and governance programs, across which we continue to meet or exceed our goals. We did publish

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our annual corporate responsibility report in late May and also announced an interim 2030 target for reducing absolute Scope 1 and 2 greenhouse gas emissions, which was endorsed by the Science Based Targets initiative.

We also set a long-term net zero target of 2050. We don't take these commitments lightly. These targets were established after extensive work by our team to identify and analyze the impact of specific initiatives that will help us reach these goals, which includes further improvements in common area energy efficiency and continued growth in our on-site solar program.

Corporate responsibility is a foundational strategy for Regency and it has been for many years. It's part of our culture and is as fundamental to what we do as is our commitment to portfolio quality and balance sheet strength.

Jim?

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

Thanks, Lisa, and good morning, everyone. While we are keeping a close eye on increasing economic pressures in the U.S. today, the operating environment for our open air retail centers currently remains healthy and active. We had a great second quarter of operating results, leading us to further increase our 2022 same-property NOI guidance by 100 basis points to 5.25% at the midpoint, excluding prior year collections. This confidence in our outlook is driven by continued positive vectors in our key metrics.

First, continued robust tenant demand with new leasing volumes up 20% year-to-date versus the historical average; increasing occupancy, both on leased and commenced basis, especially on shop space as we backfill space vacated during the pandemic. Our tenants are paying rent and we're nearly back to more customary levels of current period bad debt. Retention rates remained above historical average. Cash spreads were nearly 9% in the second quarter, and we're embedding contractual rent steps in close to 90% of our executed leases, especially important in this inflationary environment, contributing to GAAP rent spreads of 17%.

Strong tenant sales reports, again, contributing to higher percentage rent, and we're maintaining low levels of leasing CapEx with net effective rent growth also in the mid-teens. Our success and momentum relating to all these key drivers of our business gives us continued confidence in the strength of our core operating outlook.

As Lisa discussed, we do acknowledge the heightened risk of softer economic environment, including the potential for an uptick in tenant failures. We're not seeing that yet as tenant move-out activity has remained light, and we believe that is a result of the purge of weaker operators that occurred during the pandemic. Our tenants are as healthy as they've ever been, especially our shop tenants who went through the wringer 2 years ago and emerged stronger and smarter. So if we do see bankruptcies materialize, we feel like we're in a good relative position.

Turning to development. We now have nearly $390 million of development and redevelopment projects in process at yields in the 7% to 8% range. Despite construction cost increases over the last couple of years, we remain on track and on budget with our current in-process projects. Additionally, we continue to source new opportunities, supported by strong tenant demand at yields that are holding steady despite cost increases we're seeing in our underwriting.

During the second quarter, we started Phase 2 of our ground-up Baybrook development in Houston. You may recall that we completed Phase 1 of this project late last year, and the H-E-B anchor, which opened in December, is already one of the top performing grocers in the Houston market. This new phase of the project will include roughly 50,000 square feet of shops and outparcels adjacent to the new H-E-B store. We have already signed or committed leases on the nearly 75% of the new space and anticipate the first tenants opening in about a year from now.

We also started a major redevelopment this quarter at our Buckhead Landing property in Atlanta, formerly known as the Piedmont Peachtree. With total cost of around $25 million, we will redevelop the 150,000 square foot center and replace the existing grocer with a new Publix anchor. Our team is really excited to start this much anticipated transformation of this irreplaceable location in the heart of Buckhead.

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Our consistent track record and successful execution within our development and redevelopment program is a testament to the depth and perseverance of our experienced teams across the country. This avenue for investment is a core competency for Regency and is where we have the ability to create value and drive incremental growth. In upcoming quarters, we look forward to sharing further details on additional projects as we plan to start over the next 12 to 18 months.

In summary, even in a more volatile macro environment, we remain encouraged by continued strength in tenant sales, foot traffic and demand for space, supporting continued same-property NOI growth and reflective of the resiliency and quality of our locations and tenant base. Beyond that, our self-funded value creation pipeline provides an additional layer of accretion and growth.

Mike?

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

Thank you, Jim. Good morning, everyone. I'll start by addressing second quarter results, walk through key changes in our 2022 revised guidance and touch base on our balance sheet. First, we'd like to point out some new disclosure on Page 8 of our supplemental, where we now summarize the contributing elements of our same-property NOI growth.

Last quarter, we spent time describing the noise that exists in the quarterly cadence of our NOI growth rate throughout 2022, driven primarily by the collection of prior year reserves as well as an expense recovery adjustment that occurred in the second quarter of last year. Due to the continued significant impacts of these items, we stress that base rent growth is the best indicator of what is truly driving our business and is the best representation of our continued growth trajectory.

You should find that this new disclosure is helpful in making these themes more clear. And as you can see in the table, the largest positive contributors to second quarter performance were growth in base rent and improvement in current year uncollectible lease income which, together, added a total of 450 basis points to our NOI growth rate, while the offsetting factors include the tougher year-over-year comparisons relating to prior year reserve collections and expense recoveries, detracting a total of 380 basis points from our results.

We've also added GAAP or straight-line rent spreads to our supplemental on Page 19 as a complement to our historically reported cash spreads. GAAP spreads have always been an important metric for us internally given our strong focus on embedding contractual rent growth into our leases. And we believe this metric helps provide an even more fulsome picture of the primary drivers of our base rent growth over time.

Notably, as of the second quarter, even after removing the positive impact of prior year collections, our core operating earnings per share has returned to pre-pandemic 2019 levels. This achievement is a testament to our portfolio's quality and resiliency. We also converted more cash basis tenants back to accrual in the second quarter, continuing a trend over the last year, following improvement in both collections and underlying tenant credit. The resulting reversal of straight-line rent reserves contributed $3.5 million, or $0.02 per share, to NAREIT FFO, which was not included in prior guidance. We now have about 12% of our ABR remaining on a cash basis of accounting.

Turning to our updated current year guidance. We refer you to Page 6 of our second quarter earnings presentation, specifically the column indicating the drivers of the increase in our NAREIT FFO range at the midpoint. The biggest change was to our same-property NOI growth forecast, up 100 basis points at the midpoint, positively impacting our NAREIT FFO per share outlook by about $0.06. All the positive operating trends we are seeing, that Jim outlined and that impacted our second quarter results are supportive of the 100 basis point increase for the full year.

The primary drivers include higher average commenced occupancy benefiting both base rent and expense recoveries and better collections on cash basis tenants, leading to decreasing levels of uncollectible lease income. Another driver of the increase is noncash revenues, up $0.03 per share at the midpoint, primarily driven by the impact on straight-line rent from the conversion of cash basis tenants back to accrual during the second quarter. Recall that we only include these impacts and result in guidance on an as-converted basis.

Our balance sheet remains in excellent condition, ending the quarter with full capacity on our revolver with total leverage at the bottom end of our targeted range of 5 to 5.5x net debt to EBITDA. This strong balance sheet position enabled us to take advantage of an opportunity to repurchase

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our shares in the second half of June. We bought back 1.3 million shares for about $75 million, representing an average price of $58.25 per share. As Lisa mentioned, this price implied a cap rate in the mid-6s, a price at which we would happily buy assets that match Regency's quality and growth profile. Notably, the share repurchase was about $0.01 accretive to 2022 earnings.

The debt markets have remained volatile and the movement in both treasuries and spreads has impacted our cost of debt capital. But with no unsecured maturities until 2024, we have the luxury to remain patient, waiting for more opportunistic windows. We're also reminded that during periods of dislocation in the capital markets, the importance of our significant level of free cash flow is highlighted, which at north of $130 million annually allows us to continue investing accretively.

Looking ahead from an operational perspective, inflationary impacts on the consumer, combined with a softer economic backdrop, introduces some uncertainty into our outlook beyond 2022. But as we reflect on our resiliency throughout the pandemic, the impacts from which could be described as indiscriminate towards property location and tenant quality, we believe Regency's portfolio is well positioned ahead of a more traditional economic recession with greater bifurcation and performance across the quality spectrums of trade area locations, property formats and tenant exposures.

As Lisa indicated, you won't hear us say we're immune to the impacts of a downturn. But the good news is that we are starting from a position of strength. Our leasing pipelines are very active, featuring a healthy mix of tenant demand across all markets, categories and sizes with retention rates that continue to be above historical averages. One silver lining of the pandemic is that the less resilient operators were culled out during 2020, and our tenant base has emerged even stronger, providing stable footing in our occupancy.

We also have a strong value creation pipeline, fully funded with free cash flow, with visibility to more meaningful NOI contributions in 2023 and 2024. And maybe most importantly, as we consider the rising economic uncertainties, we have one of the strongest balance sheets in the sector, allowing us the ability to remain on offense and create value through investments should opportunities arise.

With that, we look forward to taking your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Greg McGinniss with Scotiabank.

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

Your recent GLA was down from prior quarters at 1.3 million square feet. Is that just a function of more limited anchor leasing? Because obviously, the number of leases looks quite good, or how should we be interpreting that result?

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

Greg, this is Jim. Great question, and I'd be happy to kind of explain what's going on there. Basically, the total number of transactions was right in line with trailing 12 months, as were the new leasing volumes, and quite frankly, the rent spreads were very solid as well. But overall, the GLA leased was slightly down for the quarter due to the renewals. And it's really the mix between anchors and shops. Typically, we're about 50-50 mix. This particular quarter, it was 70-30, heavy on shops, which basically smaller square footage averages. It also relates to that ABR of $34.43, which is a little higher than the average.

So as I looked at that, and don't tell anybody, but I looked at the July numbers from a renewal standpoint just to satisfy my own curiosity, July numbers are significantly -- on the renewal side, significantly higher than our average monthly rates and the mix is back where the anchors should

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be. So I think the anomaly will be sorted out prior to year-end. So I'm not too worried about that. In addition, I just mentioned that the overall renewal retention rate is over 8 -- or right at 80%, which is again higher than our typical average.

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

Okay. So it sounds like it's just a timing issue then.

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

It really is.

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

Okay. Great. And second question for me is with the post-pandemic migration to -- close to suburbs or string suburbs and hybrid work from home seemingly here to stay, how does that impact the foot traffic you're seeing at the centers and decisions around merchandising?

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

Greg, I think the foot traffic we're seeing is really back to where we've seen it before. In general, our demand is very strong really across the board, across regions as well as product type. Categories are doing exceptionally well, I think, or very active are grocery, value apparel, the QSRs, restaurants, obviously. We're seeing a lot of good strong demand in the health fitness, medical and also the pet categories.

The mix between locals and nationals for the shop space is really relatively the same as what we've seen. And really, from an overall demand standpoint, I'd say, just to give you a flavor on the anchors, we've got 39 available spaces today, 24 of those are either at LOI or at lease. So again, I think -- that's with the likes of TJX, Publix, Burlington, Ross, Five Below, Nordstrom Rack. So those are the kind of folks we're talking to, and I think that gives you a sense for not only are we seeing great shop demand, but also the anchor demand is very, very strong.

The only thing I'd add to that, I think, is we remain confident in that suburban market in which we operate, kind of anchored by the dominant grocer with need/necessity type of retailers. And we think -- we believe we're going to continue to see demand shift towards our product type and our quality.

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

And Greg, I'll just add -- really well said. But we continue -- I think we sound like a broken record, what the past 2.5 years, if that's how long it's been, have really demonstrated and validated is the importance of the neighborhood community shopping center in the retail and service ecosystem. And we -- so I said -- and I said we sound like a broken record. If you went back and you listen to earnings calls prior to the pandemic and then throughout it, we feel really good about the future of our business.

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

I'm sorry, just one point of clarification on the foot traffic. Are you seeing any increase in midweek traffic? And do you have the data on length of stay, whether that's changed since pre-pandemic?

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

It's basically still the same. And remember, we did -- as everybody did, we did dip with the pandemic, and we've recovered really quickly and much more quickly in some markets versus others, as we always like to say, it was indiscriminate. But what it was discriminated on was the amount of shutdowns. So we -- there have not been significant differences from pre-pandemic to today.

Operator

And our next question comes from the line of Michael Goldsmith with UBS.

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

Maybe to follow up on Greg's question here. Can you talk a little bit about the demand from tenants and maybe break it down between discretionary versus essentials? I know you have more exposure to the essentials side. But trying to understand if different types of tenants are slowing their demand or if the momentum kind of continues on both sides.

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

I would tell you that I see the demand basically staying pretty robust across all sectors of the folks that we do business with. So really not seeing a category I can point to you to say this is falling off.

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

And my second question, the lease spreads accelerated on a cash basis, on a GAAP basis. So is there kind of a continued upward trend here? And then I think you also mentioned that you have escalators in 90% of your new leases. Where did it stand before? And how accepting are tenants in taking on these escalators?

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

Sure. Yes, the cash rent spreads roughly this quarter right at 9%. Trailing 12 months is right in that neighborhood. That mirrors what we believe long term is our target for the cash rent spreads. And again, when we couple that cash rent spread with the embedded spreads that we're putting in the existing -- the new leases, the combination of that really is what -- and I think judicious CapEx spend, that kind of gets us that net effective rent and GAAP rent spreads that we kind of look as a real answer to whether or not we're making progress in our business.

As far as the embedded, we are in this inflationary area right now. We are taking steps to raise our ask. We're asking between 3% and 4% on deals today, which is higher than we've done in the past. And we're having pretty good success with that. I think everybody recognizes inflation touches everyone, and we're not getting left out of the program. So we're actually having pretty good success getting that higher embedded rent step.

Operator

And our next question comes from the line of Ki Bin Kim with Truist.

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

So you have a 240 basis point spread between signed and occupied. Could you just talk about what that ABR looks like? And how much of it is actually being accrued in the income statement already?

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

On the pre-lease percentage, Ki Bin -- this is Mike. So that's worth about $34 million of rent. We actually added some disclosure to our NAV page. I don't have the page number. But...

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

Page 33.

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

Page 33. Thanks, Christy. And you'll see that we added some disclosure to get you to the value of that pre-leased pipeline. All of that is, again, it's pre-lease percentage. So that's embedded into our forward outlook of same-property NOI growth. We did -- I'll take this opportunity to reconfirm that we've increased our outlook for the balance of the year by 100 basis points. It is largely driven by higher commenced occupancy and lower move-outs and the combination of the 2. So we'll continue to deliver space. We're doing so quite successfully. It's not easy. But the team is doing a remarkable job bringing that pre-lease pipeline into production.

And then lastly, the other huge element from our same-property NOI outlook is uncollectible lease income. We've been just so surprised this year how quickly that is healing and returning back to classic levels of 50 basis points. Last year, it was 175 basis points of bad debt. We came out thinking it'd be in the 100 basis points area, now we've lowered our eyes again to about 75 basis points for the balance of the year.

So that implies a back half of the year that's basically on par or getting pretty close to that historical average. So we feel -- to confirm the points that Jim made earlier, feel really good about the in-place tenancy and the health of our tenants.

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

I can't help but just make a quick comment that while we talk about it, it is extremely important to get the signed but not occupied paying rent and to get back to maybe a more stabilized level. I'm very happy if it stays where it is as long as our percent rent paying is also increasing because that means we're doing a lot more new leasing.

So that's a good thing. So the fact that, that [F&O] isn't moving much and our percent rent paying is increasing means we're doing more new leasing. So that's a really positive sign.

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

Great. And a second question for me. When I look at your tenant list, it's probably one of the healthiest tenant rosters I can see in the strip center space. It shows your top 30 tenants, so I'm assuming the rest is probably equally as healthy. How do you think about your tenant roster today versus pre-COVID?

And as there are some concerns about a macro slowdown or inflation impacts on different consumer segments, how do you think your portfolio and your tenant roster handles that situation versus what it might have been 3 years ago?

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

Ki Bin, I think -- I'll be honest with you, I think we're absolutely stronger -- in a stronger position today with our tenancy. Obviously, the last couple of years really split the wheat from the chaff. Our survivors are smarter, stronger, just like I said in the opening comments. They're savvy. They're

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reactive. They know how to get things done with a lot of adversity, and that gives me a lot of comfort. And it really much -- going into any kind of slowdown, I feel very comfortable with the folks we've got on the roster right now.

Operator

And our next question comes from the line of Craig Schmidt with Bank of America.

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

My question is on the contractual bumps you mentioned in the opening comments. I'm just wondering, what are your annual contractual bumps generally ranging? And do you have any CPI bumps in any of your existing leases?

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

Annual average is probably somewhere in the 2% to 4% range. CPI, we do -- we've got kind of a mixed bag. We do have some CPI. But generally, I would say, that's a pretty small portion. Most are stated rates. We have -- at renewal time, we got some fair market value. We're kind of shifting towards that fair market value window at renewal. I think that gives -- it's fair both ways, and it doesn't lock anybody into a predicament, if you will. So I think that's...

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

That 2% to 4% sounds like it's a little bit higher than it was. Are you been able to increase that?

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

I'm sorry. Say that again?

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

The 2% to 4% bump sounds a little bit higher than I'm used to hearing. I'm just wondering if you've been able to raise that in the last few years.

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

The 2% to 4% is new and in place is probably closer to the...

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

Yes, let me -- I'll take that one, Jim. So what you typically hear us talk about, Craig, is our portfolio-wide impact to growth. So if you look through the entirety of the portfolio, we're at 1.3% or so of growth. We're teetering on 1.4% as the team and Jim articulated. On a deal-specific basis, we're getting 2% to sometimes 4% growth on over 90% of our new leasing, and that's what's helping drive that 1.3% up.

But it's -- there's 9,000 tenants that we're working through. We have move-outs that actually you can have a tenant moving out that was paying 3% contractual increases. So that's -- it's a mountain to move, but we're making great progress in that regard.

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

Great. And then if I could follow up. There's -- I mean, I understand your appropriate caution about the macro environment. But there are articles going around saying that 50% of small businesses could go out of business in the months ahead. I just -- I find that -- I have not heard anyone suggest a recession as bad as the Great Recession. And the Great Recession had nowhere near that number of damage to small shops. I'm just -- are you seeing anything that would make you unduly worried about your small shops even given the macro environment?

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

Craig, I'll take that one. Absolutely not. And I'll just reiterate what Jim just talked about with regards to the health of our tenant base. It sounds a little bit contradictory when we say we're coming into this. What may become a recession, if it's not already, from a position of strength. And that meaning that the tenants that we have in place, the merchants that are in our shopping centers really have survived. I love that Jim said separated the wheat from the chaff, like really have survived a really difficult challenging time from a demand standpoint with COVID-19.

And so we have really strong good operators. And they -- even those that may pull back on maybe new store opening plans, we have the best locations. And if they pull back from, okay, I'm going to open 2 stores in this market to 1, I don't see an impact to Regency whatsoever in that scenario. And I will go out on the limb and agree with you and say -- and I could -- I may very well be wrong, but I don't see another GFC in the future, at least not in the next 2 years.

Operator

And the next question comes from Craig Mailman with Citigroup.

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

Just maybe following up on the previous question on escalators. You guys are running at above average retention rates getting better resolution here in the past. Are the retailers who want to keep the space that they have, are you able to -- or let me ask, are you giving up anything to get the higher escalators? Or are you getting the base rent increases that you would have wanted regardless along with the better escalators? Can you just talk a little bit about the kind of the negotiation there with tenants?

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

Yes. I don't think we're giving anything up to negotiate market. We're pretty good negotiators on rents, and that's what we believe market is today. We're seeing other landlords moving in that direction. So we're just negotiating what we believe is market today.

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

So as we think about kind of long-term trends in same-store with the structural uptick in escalators here, I mean what do you think your portfolio could start to post in the next couple of years as you really churn through the leases?

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

Yes. Craig, it's Mike. So I'll go back to the 1.3% going to 1.4%. That's a big change. It sounds small, but it is a big change. But in the overall picture of our forward outlook on same property NOI growth, we're still -- the 2 largest contributors in the near term will continue to be occupancy increases and lease spreads. Certainly, embedding contractual increases is important to Regency's long-term outlook and our long-term growth, and we will not stop embedding those increases into our leases, which we have been doing for a long period of time at this point.

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But right now, our eyes are on our ability to push commenced occupancy. We've talked about 2022 achieving plus or minus 100 basis points in commenced. And we feel as good as we have 6 months ago in saying that, and we have good visibility to achieving that objective. And to Lisa's point, if we think about even a softer economic backdrop, given our relative position of strength, we feel like we can grow through a period of disruption and continue to add rent-paying occupancy in '23.

And on previous calls, we've talked about another 100 basis points plus or minus of opportunity. More to come on when that will -- more to come when we put out formal guidance for -- and our outlook for next year and beyond. But there's at least another 100 basis points of commenced there to get back to our peak occupancy levels.

Then the other major contributors, lease spreads. And Jim spent a lot of time in the 9% range, mid- to high single digits is where we want to be, where we need to be to achieve our objectives of averaging north of 2.5% certainly, 2.75% before redevelopment contributions. And when you add the investment and the reinvestment into our portfolio, we feel good about averaging 3% or better on a sustained basis going forward.

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

Okay. And then maybe on a similar kind of aspect is -- right now, AFFO growth, you guys are a little bit impacted by the noise from collections. But with the higher retention rate, you guys should theoretically have less CapEx, higher net effectives. I'm just trying to think as you -- maybe it doesn't fully correct itself by '23.

But as you look maybe into the outer years and not looking for guidance per se, but just a sense of where that longer term AFFO growth from the portfolio could start to trend and how that could look relative to peers in the sector.

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

I'll let you handle the peers component. But -- So let's talk about a couple of ways to interpret our disclosure first. So core operating earnings, I would point you right to that metric. We are unique in the space and we use core operating earnings. Obviously, we're stripping out the impacts of anything that's noncash. The only difference between core operating earnings and AFFO is going to be capitals. And when we think about capitals, we are planning and have been spending about 10% to 11% of our NOI every year in maintenance capitals combined with leasing capitals.

We don't see that trending materially outside of those bounds. Craig, I would probably point you more towards the upper end of that range at about 11% given the amount of space we have left to lease. It's just going to be a volume business, so we probably will spend a little bit more capital. Beyond -- and then to your point on prior year collection.

So you got to eliminate the impact of prior year collections from -- to get to more of a core AFFO metric. When you do that, as we think about our business going forward, our core operating earnings growth, therefore our AFFO growth, should match together -- should move in lockstep with one another because we just don't see any kind of disproportionate moving parts between those elements.

Operator

And our next question comes from the line of Wes Golladay with Baird.

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

Just want to go back to you, maybe looking at your watchlist. At this point in time, is it more skewed towards tenants with capital structure issues? It sounds like everything on the ground level is looking pretty good.

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

I think generally, that's probably, yes, the right answer. There are a couple of folks on there that really don't have debt issues as much as they got operational issues. But for the most part, you're exactly correct on that assumption.

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

And would you typically have a much higher recovery, right, when it's just a reorg?

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

Absolutely. As we look at that watchlist and look at the guys that might be towards the top of that list, we do a lot of Placer data and things like that to try to understand, look at sales, where do they fit in the organization. And fortunately, for the vast majority of those locations, we sit in the top 60%, 70% of their locations, which gives us great leverage when it comes to negotiating in a reorganization BK.

So in addition to that, we look at existing rents versus what we, again, believe market rents are. And I think we've got some pretty good opportunity for upside in a lot of those cases. So at this point, we're pretty comfortable with where we are in the watchlist and our position in that whole arena of where it goes from here.

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

We have a very detailed investment strategy, but it really comes down to -- we like to own, acquire, develop properties where bad news is good news.

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

I guess, maybe with -- I mean it sounds like the anchor space is pretty much spoken for all the vacant space. Would it be fair to say maybe you want some space back at this point? I think you mentioned you have some upside in some of these assets.

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

Yes. As Lisa said, we like opportunity to -- bad news becomes good news. And that's a lot of times getting those anchor spaces back can trigger the redevelopment that you're waiting on. And those are the kind of things -- with watchlist tenants, our strategic plans that we devise for every one of our assets, our guys are, if I get it back, what am I going to do? So we're not surprised when it happens or if it happens. But we're ready in the event it does happen that we know where we're headed.

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

Got it. And then for the redevelopment, I think the comment earlier in the call was the development and redevelopment will be a positive contributor next year. But more specifically for the redevelopment, do you expect it to be that net positive contribution that you have in your algorithm? Or is there anything special that's going to come off-line that may be a little bit of a detriment to offset the positive from what's coming online next year?

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

More to come details, Wes. But on balance, it's going to be a major contribution on a net basis. We will continue, I hope, to have some opportunities to frankly take some NOI off-line to set up new redevelopments. But in particular, The Abbot and The Crossing Clarendon are 2 assets that the

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teams have been working extraordinarily hard on. We've been, from a finance perspective, very excited looking out to when those properties start to stabilize, and that time is now. The leases have been executed.

Great visibility into when we start -- we'll start seeing some income, start to come in at the very tail end of even this year providing -- from this point forward, there's -- in those 2 assets and if you put our 4 in-process ground-up developments into the bucket, by 2024, that's another $15-plus million of NOI that we are creating in the portfolio. So the short answer, we do anticipate returning to a positive contribution from redevelopments as we look into '23 and '24.

Operator

And our next question comes from the line of Ronald Kamdem with Morgan Stanley.

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

A couple of quick ones. Just looking at the shop occupancies. It's been ticking up nicely over the last 12 months. I think I heard you say earlier that there's maybe 100 basis points more to go to get to peak. Just trying to get a sense of just for some context throughout the cycles. How high does that commence occupancy get? Could you get to sort of a 93%-plus range? Or do you start to run into some structural factors?

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

Yes. So the 100 basis points, by the way, was an all-in commenced rate. So that's shops and anchors. We look at 92.5%, 93% as kind of a top end from a shop lease perspective. So that's where our eyes are. We believe in the quality of the portfolio. We believe we can replicate those ceilings, and the teams are working hard to do that.

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

Great. And then just my next question was just trying to -- back to sort of the bread crumbs of the growth algorithm. You have a really great breakdown of sort of the same-store NOI in the supp. I see base rents at 3%. Just trying to get a handle of some of the other 2 big lines on collectibles. And this is year-to-date numbers on collectible adding 4.7%, recovery is a headwind of 3.9%. As you're thinking about sort of the future and those sort of presumably normalized, is this sort of the right new way to think about it in terms of the long-term growth prospects of the company?

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

Let's first make some short-term comments and then we'll get into the long. But we do see -- I appreciate you noting the new disclosure, by the way, so -- and I hope everyone takes a look at that. I think it's really helpful. What it first does is highlights that base rent growth, as we've been trying to point people's eyes to, is the best line item to look at for the health and forward quality of our earnings stream in the near term.

And what you see there is, yes, 3% growth outside of the noise in the first half of this year. We should do better than that to finish out the year on the base rent line item. We will -- that will not be a decelerating impact. That will be an accelerated impact. We will continue to have tailwind, as I mentioned previously, from bad debt expense or uncollectible lease income as the portfolio very quickly moves back to historical averages, again, 175 basis points last year moving to about 75 basis points this year, 50 basis points from being our long-term sustained average.

There is noise in the other line items. We've got just a lot of COVID-era type of adjustments still moving through really 2021 that are impacting all of the other components of growth. But I think looking forward, I would -- our eyes are focused on base rent growth, the amplified impact of recovery income. As you lease up space and raise your commenced occupancy, you're going to amplify that growth by picking up margin on your collections.

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And then we add into that the investment and what we just talked about with Wes and the contribution from redevelopments. And you put all that into the bucket, and we feel great about achieving our long-term objectives of 3% or better through redevelopments. And in the short term, we should do better than that from an occupancy perspective because we have room to grow rent-paying occupancy.

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

And also, that's certainly the same property NOI growth kind of long-term growth model, which is a very large component of the going forward growth for the company. But we also have the ability to invest the very high level of free cash flow that we generate, which will also be an important part of our long-term growth of core operating earnings per share.

And I'd point you to our investor presentation, not just the disclosure, where we do, do a very -- thank you team, a very nice job of illustrating our growth model going forward. And that's on a stabilized basis. So it's not even actually accounting for the occupancy increases that we are seeing today and we will continue to see in the near future.

Operator

And the next question comes from the line of Hong Zhang with JPMorgan.

Hong Liang Zhang - *JPMorgan Chase & Co, Research Division - Analyst*

I think in the past, you've talked about potentially reaching back to 96% leased occupancy as early as late next year. I guess, given your commentary about the uncertainty that's in the market right now, has your thinking around that changed at all?

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

I'm happy to jump in. I will reiterate again that regardless of the macro backdrop, we feel really confident about the quality of our properties and our going forward health of our business. We -- just repeating really what we said in our prepared remarks, we have -- we're entering this with a position of strength. As we have worked through a lot of dislocation and disruption through the past 2 years, our operators, our tenants, our merchants are in an extremely healthy position.

And we believe, and Jim talked about how we've watched them be adaptive and reactive and be flexible, and I really believe that even if there is softening consumer demand, which we're not seeing because of, again, our trade areas are supportive of consumers that are able to absorb a little bit more. But even if there is softening demand, we truly believe that they're going to be able to adapt and be flexible, as we've seen them already do.

And then with that, retailers and merchants play a long-term game as well. It's not just about the next 12 months. And they're also positioning their companies for future growth, and they're going to need new locations for that future growth and they're going to desire to be in the best locations. And we feel that we are really well positioned to be able to work with them and help them meet their goals as well.

Operator

And the next question comes from the line of Derek Johnston with Deutsche Bank.

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

I'm sorry, I know we spent probably too much time on this, but it's important. I'll try to be pointed. Because investors definitely seem concerned about the forward outlook over business trends in the second half, much more so than strong results and even pipeline commentary. But -- look, we believe Regency is very well positioned.

But could you speak to actual conversations with tenants and prospective tenants? And I guess the question is, are we sensing or seeing any slowdowns in decision-making right now? Or is this exercise really mostly conjecture at this point? That's kind of what I'm trying to figure out.

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

Derek, I would tell you that we're fresh off ICSC out in Vegas. There's -- trust me, I've been at this game a long time and I'm looking for smoke more than anybody and just not seeing it today. There's continued positive attitude towards growth. Deals are getting done. And yes, we're looking hard, but you're not seeing any cracks at this point in the armor.

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

No, that's helpful. And that's also in line with peer commentary. Just, I guess, sticking on leasing. So The Abbot in Boston, I was wondering if we can just get an update on the early leasing there and tenant interest. I know it stabilizes at '24, right? But you do have some rents commencing, I think, in the back half of this year. So just really any color on the demand, the interest of this mixed-use asset and really how you feel about the project and how prospective tenants are reacting as well.

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

Sure. The Abbot is nearing construction completion. It looks fantastic. If you get an opportunity up in the Harvard area, please poke your head and I think you'd be impressed with what we've accomplished up there. Leasing momentum is strong. We're 100% leased on our retail. It was a little slow on the office side coming out of COVID. They were close to go. But we've had great current opportunity on the office side, and I believe we just signed it -- there we go.

Just off the press, just signed a lease on the majority of our office space in the tower. So very, very positive news. The -- like I said, the project looks great. Tenants are under construction, should be opening up. And now that we've got this office lease executed, we're -- we'll have a good report for next quarter.

Operator

And the next question comes from the line of Juan Sanabria with BMO Capital Markets.

Eric Borden

It's Eric on for Juan. I was just hoping if you could talk about how your tenant underwriting has changed post pandemic and kind of your thoughts today given the potential slowdown in the economy.

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

I think our underwriting really is -- has been consistent. We are pretty conservative in underwriting. We embed contingencies. We've increased those contingencies as we saw interest rates increase, as we saw slowdowns from supplies and other things. So I think our underwriting has

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continued to keep up with the moving parts in the economy. And from an underwriting standpoint, we still are able to underwrite deals that still meet our threshold from a yield perspective with good visibility towards expectation for cost. So...

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

Eric, I'll jump in and add. I don't -- the way your question was framed, I think we look at tenant underwriting, whether in the operations side of the business or project underwriting, and the investment side of the business for all seasons. And we don't necessarily look at the economic backdrop and change. We're -- we have a very focused strategy on our merchandising mix and what types of operators we want to partner with and do business with.

And that's been consistent through all seasons and all economic cycles, and we make adjustments on the margins in our investment activity to account for or provide for a changing landscape and costs, as you would expect us to do. But really, we don't -- you push the accelerator or push on the brakes materially in any way. We apply our very -- our long-standing, well-honed strategy on both sides.

Eric Borden

Great. And then just a follow-up on foot traffic. Given your defensive portfolio, I was just curious how are your centers performing in -- versus the competition in the respective trade markets.

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

As you would expect them to perform. We are not -- we believe we own market dominant centers, trade area dominant centers. That is our objective. We call it our DNA approach to investment. We use premier high quality as these designations. And they -- the reason we use those designations is they outperform on several metrics, one of which is tenant -- consumer demand. And they continue to outperform on consumer demand. Our centers are the preferred centers generally in those preferred trade areas. Foot traffic levels would support that outperformance, sales would support that outperformance, tenant demand and rents.

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

Yes. I think the best scorecard that you can really use for that -- yes, you can look at foot traffic and should, but what are average base rents, because that's what the market is demanding. So that's what the retailers are using as their basis for the sales that they can produce and sales. And in both cases, as we've already talked about earlier today, as Jim did when he was talking about bankruptcies, Regency is in the very top percentage in both of those categories.

Operator

And our next question comes from the line of Paulina Rojas with Green Street.

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

You talked about the strength of your tenants. But in terms of your small shop cohort, I hear from you and your peers that they are stronger than in the past. Aside of the fact that they are survivors from a period of great disruption, which is, yes, by itself very telling, are you able to track any other hard metric, sales leverage, to substantiate the statement that they are stronger than in the past? And I know the access to information is limited, but I was wondering if there is anything at all you can -- that is more tangible you can focus on and track over time.

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

Certainly, sales has been a major indicator in the past, and that -- we continue to use that. With our small shop tenants, we are able to get that kind of reporting. So that's probably our best metric to at least judge historical performance. We obviously look hard at credit going in. But it's also an important factor with small shop tenants is their past performance from an operator standpoint.

You can walk in a retailer store and get a pretty good sense whether they're a good retailer or not. And that's what our folks in the field do, an excellent job of staying close to our tenants. And you can read the tea leaves. And that's -- I mean it's hard to put it on paper and give you a metric, but that's how we -- that's how you have to run your business to be able to stay ahead of that. And I think that's one of the things we do very, very well at the asset management level is really understand what's going on behind those tenant doors.

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

You mentioned sales. How frequently can you have access to their sales performance?

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

We generally take a hard dive on an annual basis.

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

And I think we heard -- and I know, Paulina, you've heard us talk about this as well. We have 22, maybe a little bit -- more than 20 offices across the country with people in the local markets that are working with our tenants really closely. So we absolutely look at our reported sales. But also just having good relationships with our tenants, with our customers is really important to understanding the health of their businesses, the challenges they may be facing.

I think we really rose above some of the challenges in the pandemic because of that, and we will continue to do so in good times and in bad times. And so that's also an important part of it. So it's not a hard and fast metric and nothing that we can actually report, but it's certainly those relationships, those conversations and understanding what's important to them.

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

Then my other question is regarding commenced occupancy. So I saw it increased by 10 basis points sequentially. You said in 1Q that it's usually affected by seasonality, right? So my first question, is there any reason behind that softer sequential increment?

And the second part is I think you mentioned you were targeting an increment of 100 basis points for this year. So can you please confirm that, that refers to same-property in-place occupancy and average for the year, not end to end? I want to make sure I am understanding the target of 100 well.

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

That's -- the commenced occupancy increases that we're targeting is a period-based measurement. So it will be at year-end, we should be 100 basis points up from where we started. I think we're already 40 basis points through the first half of the year. So that speaks to the confidence we have in delivering space from that pre-lease pipeline over the balance of this year, Paulina. But that's a spot rate. So what we're excited about is the impact on 2023.

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

Okay. So, yes, occupancy commencements should be stronger in the back half?

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

Yes. It needs to be to achieve our objectives of 100. It's plus or minus 100, but we feel good about delivering the space that's, again, already contracted for. So it's just a matter of our tenants building out. I'm not making light of how difficult this can be. The teams are doing, I mean, daily hard work delivering spaces, building out spaces so we can get to rent commencement.

Operator

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

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

You've got 12% left on cash basis accounting. Last quarter, it was 14%. Just given the trajectory you've been coming out of from the pandemic, how many quarters might it take to get to a normalized level of cash -- percentage of tenants on cash basis accounting?

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

Linda, it's Mike. I don't have a discrete answer to your question, but we're making great progress. I do think -- we do have some visibility to at least another 1% to 3% kind of sticking with our policy of what a tenant needs to do and how they need to behave to -- for us to convert them back to accrual accounting. So we do see another 1% to 3%, I think, in our near-term impact, which, by the way, would include another, call it, $2 million to $5 million of noncash straight-line rent conversions. So we don't guide on that number in the supplement, but we do talk about it on this call.

Beyond that, then the question becomes, well, what is your normal percentage of cash-basis tenants. And that's, again, a little bit harder to get a gauge on because the leasing standards also changed as we look at our historical averages. So -- but we think our numbers probably in the mid-single-digit area, the 5% to 8% range, somewhere in that area plus or minus. So we've got a little bit of room to run but we're nearing the end, and we'll continue to make progress as we have.

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

And I appreciate the question and the concern for it. It's a metric that we have all begun to report. But the important thing to really focus on is bad debt expense. Because a tenant can be a cash-basis tenant but paying rent. And as Mike said earlier, we are seeing our bad debt expense return to more typical historical levels. That's the more important thing that we really -- and that's what we focus on here as well.

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

And then the jobs report came out this morning and was better than expected with decent hiring in retail, including grocery and general merchandise. Are you hearing this as well from your tenants in terms of easing labor shortages?

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

I think, generally speaking, what we -- we have seen -- and the same conversations that we're having with our tenants, that we have seen things ease over -- I think we even said that last quarter, so it's a little more than even a quarter where we've seen some easing of both labor shortages and also supply chain difficulties, both.

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Operator

And our next question comes from the line of Michael Gorman with BTIG.

Michael Patrick Gorman - *BTIG, LLC, Research Division - MD & REIT Analyst*

I know we're running a little long, so I'll try to be quick. But stepping back for a minute and looking longer term. Lisa, you talked about ESG and some of the targets you've laid out in your new report from the spring. And I'm just wondering if you could talk about how we should think about the capital commitment to these initiatives over the next 8 to 10 years or so, and internally, how Regency is approaching underwriting the different projects and different initiatives that you have on the emissions front.

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

It is not going to -- there will be an additional cost, an incremental cost, but there's also savings, as we do implement some of the energy efficiency, things that we've already -- we've done over the past 13 years, from a water conservation, LED lighting and we'll continue to do. And we'll also continue to perhaps generate some revenues from solar panels. And so from a material standpoint, it's not material.

What's more important is the fact that we are really focused on embodied responsibility and corporate responsibility within our company. And it truly is a foundational strategy. And as we think about and talk about new investment opportunities, it is part of the conversation. Every acquisition, every development, we will look at the impact essentially to our targets into our goals and objectives. But it's not a material cost.

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

If I may just add a little bit more detail there for you, Michael. 80% of our objectives can be achieved by really pulling 2 levers, right, through 2030. It's LED light conversions and it's addition of solar panels on property. So to Lisa's point, LED light conversions is already part of our plan. So that is, in effect, a neutral element of our expense, right?

And then solar panels, it's to her points, where that's where you actually save some money. And in fact, you have an ROI. You make money on the solar panel installation. So just for a little bit more added color, the balance, so where is the other 20% going to come from? Innovation is going to play a big role, and then we might have to buy some recs as well, which they'll be high-quality recs and we'll be very smart with that.

Michael Patrick Gorman - *BTIG, LLC, Research Division - MD & REIT Analyst*

That's great color. And just maybe following up on that. I understand that it's core to Regency anyway, but I'm wondering, as the entire market evolves, as you're having more conversations around developments, redevelopments, maybe even acquisitions and lease discussions, I'm wondering if you're seeing Regency's dedication to ESG come up in those conversations as maybe a competitive advantage, is something that may be helps in these negotiations and in these discussions for regular way business.

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

Let me start on the capital market side, yes, whether it's tapping the unsecured bond markets or whether it's -- we have a bit of a financial incentive within our revolver. But we're seeing it permeate through the capital markets. And we do believe, ultimately, whether it's access or whether it's pricing reductions, there will be some marginal benefit to us. On the operations side...

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

On the operational side, I would say there are kindred spirits that appreciate what you do. But I don't think it's ingrained in the -- at the real estate level as much as is in the capital markets.

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

And then we do development.

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

I was going to say since we're tag teaming, and I'll take the transaction side. On the transaction side, we've actually -- we were part of a bid process, if you will, on a portfolio of properties. Unfortunately, we were not successful in it. It was a major part of the bid as to the efforts that the company is putting into the E in ESG. So yes, it is very important to other stakeholders as well.

Operator

Thank you, everyone. At this time, we have reached the end of the question-and-answer session. And I would now turn the call back over to Lisa Palmer for any closing remarks.

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

Thank you all very much. Appreciate your time with us. As some of you may be heading to the shore or the beach or the Long Island for the weekend, enjoy your weekend. Thanks all.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.

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