Regency Centers Corporation (REG) CEO Hap Stein on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.3421 misses by $-0.00 | Revenue of $274.92M (1.31% Y/Y) beats by $1.15M

Earning Call Audio

Regency Centers Corporation (NASDAQ:REG) Q3 2019 Earnings Conference Call
October 31, 2019 11:00 AM ET

Company Participants

Laura Clark - SVP, Capital Markets

Hap Stein - Chairman and Chief Executive Officer

Lisa Palmer - President and Chief Financial Officer

Jim Thompson - EVP, Operations

Mac Chandler - EVP, Investments

Mike Mas - Managing Director of Finance

Conference Call Participants

Greg McGinniss - Scotiabank

Christy McElroy - Citigroup

Rich Hill - Morgan Stanley

Craig Schmidt - Bank of America Merrill Lynch

Shivani Sood - Deutsche Bank

Jeremy Metz - BMO Capital Markets

Samir Khanal - Evercore

Wes Golladay - RBC Capital Markets

Vince Tibone - Green Street Advisors

Michael Mueller - JP Morgan

Linda Tsai - Jefferies

Operator

Greetings, and welcome to Regency Centers Corporation Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host, Laura Clark, Senior Vice President of Capital Markets.

Thank you. You may begin.

Laura Clark

Good morning, and welcome to Regency's third quarter 2019 earnings conference call. Joining me today are Hap Stein, our Chairman and CEO; Lisa Palmer, President; Mike Mas, Chief Financial Officer; Mac Chandler, Chief Investment Officer; Jim Thompson, Chief Operating Officer; and Chris Leavitt, SVP and Treasurer.

On today's call, we may discuss forward-looking statements. Such statements involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements. Please refer to our filings with the SEC, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements. We will also reference certain non-GAAP financial measures. We provided a reconciliation of these measures to their comparable GAAP measures in our earnings release and financial supplement, which can be found on our Investor Relations website.

Before turning the call over to Hap, I would like to highlight updates for development and redevelopment pages within our supplemental disclosure. We have included additional information in an effort to provide enhanced guidance around timing for initial rent commencement and stabilization, as well as expectations for NOI coming offline, as we position pipeline projects for start.

We hope you will find this useful. Hap?

Hap Stein

Thanks, Laura. Good morning, everyone. We are pleased with our leasing activity and pipeline and are experiencing healthy tenant demand across multiple categories. The retail environment continues to evolve, as grocers and retailers remain focused on the importance of high-quality physical locations that provide shoppers with the best combination of convenience, of service and of experience.

Regency will make the right decisions that will enable our shopping centers to remain relevant in driving places for outstanding retailers to connect with the surrounding neighborhoods and communities in the top markets across the country.

As you'll hear from Lisa, the team is intensely focused on addressing short-term headwinds, driven by what we believe is a rare confluence of atypical bankruptcies together with the timing of larger redevelopments.

You should know that I share her confidence that we will soon return to core earnings and dividend growth and total returns that will be among the sector leaders to Regency's combination of strategic advantages, which include, our high-quality portfolio of community and neighborhood shopping centers anchored by high performing grocers located in the fluid and dense trade areas; our experienced development and redevelopment capabilities and deep pipeline; free cash flow after capitals and dividends that funds our developments and redevelopments on an extremely favorable and cost-effective basis, supported by our strong balance sheet; and Regency's exceptional team located in top markets across the country with a commitment to industry-leading, environmental, social and governance practices.

Before turning the call over to Lisa, I am happy to report that the Executive Succession Plan that we announced last quarter is progressing well. Mike has seamlessly moved into the role of CFO and as you know, Lisa is fully prepared to be Regency's CEO, when I become Executive Chairman on January 1st.

I am extremely confident that Regency will continue to progress on our journey from good to great under Lisa and our talented team. Lisa?

Lisa Palmer

Thank you, Hap, and good morning, everyone. I want to reiterate how honored I am that you and Regency's Board of Directors have entrusted me to lead Regency. I am excited about the opportunity and I am looking forward to continuing to work alongside with you and with the rest of our exceptional team.

First on the call today, I will provide some comments around our 2019 guidance. 2019 same-property NOI guidance has been updated to 2%, which is taking the high-end off the table. You may recall, last quarter, we stated that we did expect to finish the year at the low-end of our previous range of 2% to 2.5%.

And I will remind you that a few factors have contributed to this to our same-property NOI growth being below our strategic objective including the bankruptcy impacts specifically related to Sears Kmart, a muted contribution from redevelopment, and timing around leasing and move-outs in the first half of the year.

In spite of these headwinds, it is notable that we expect 2019 core operating earnings growth to come in at the high-end of our 3% to 4% range.

Looking ahead to 2020, we will provide full year guidance with our fourth quarter earnings release. However, we want to share an initial preview of our 2020 expectations. Due to what we consider to be a unique set of circumstances, same-property NOI and core operating earnings growth in 2020 is currently expected to be flat to slightly positive.

This temporary dip in growth is primarily being driven by a couple of factors. First, an elevated impact from bankruptcies including a 50 basis impact just from Barney's, plus additional known and potential move outs for tenants such as IPIC, Dress Barn and Pier 1.

And second, an estimated $4 million of NOI that we are proactively taking offline next year for in-process and planned redevelopments will be offsetting the positive contribution from projects that were completing, as well as just the general timing of starts and deliveries.

Beyond 2020, we do have conviction that we will return to 3% NOI growth and 4% plus earnings growth driven by a number of key components. We believe that the elevated impact from bankruptcies largely a result of our unique Barney's will return to a more normalized range in 2021.

While we are cognizant of the evolving retail environment and its challenges, the quality of our portfolio, our well-located properties and top notch team give me confidence, but going forward, and consistent with our experience in the past, Regency will have relatively lower exposure to store rationalization.

In addition, we continue to see healthy tenant demand as evidenced by our active and full leasing pipelines is giving me further confidence in the potential for upside in rent paying occupancy for both anchors and shops.

We continue to achieve annual embedded rent steps, translating to a build in approximate a 130 basis points of growth across the portfolio. Growing rents in the 7% to 8% range also translates to an additional 100 basis points of growth. We are making great progress on our in-process redevelopment projects and we have good visibility to contributions that will support our 3% same-property growth objective in the future.

In fact, over the next five years, our pipeline is positioned to generate approximately $45 million of incremental NOIs from eight specifically identified projects including the Abbot, Market Common, Westwood and Serramonte to name a few that Mac will talk about and just a bit.

And while the contributions from redevelopments will be uneven at times, as we prepare for and start these more complex projects. Over time, these value-creating redevelopments will translate into a positive contribution that should average approximately 75 basis points of growth, even with these two years of muted contribution.

Lastly, and perhaps most importantly, our team remains keenly focused on blocking and tackling and executing our strategy to enable Regency to return to sector-leading total returns. Jim?

Jim Thompson

Thanks, Lisa. Same-property NOI growth for the third quarter met our expectations at 2.1%. I am happy to report that Q3, the team executed most new shop leasing in nearly eleven quarters. We continue to have success embedding contractual rent steps into our leases, as evidenced by nearly 90% of our new shop leasing, include average annual steps of 2.4%.

This translates into strong straight-line rent spreads of 14%. Due to robust pipeline, we expect the positive leasing momentum to continue. At the same time, as we discussed in the first half of the year, the timing of leasing and move-outs earlier this year caused the decline in rent paying occupancy and in turn, lower same-property NOI growth for 2019.

In regards to tenant fallout, we are diligently monitoring watch list retailers and focused on working with potential backfills for existing and future vacancies including our IPIC Theater and Dressbarn locations, as well as tenants like Pier 1, where we have 11 locations representing 20 basis points of annual base rent.

Foreclosures are a part of the business and our teams are discerningly back-filling these spaces, upgrading the merchandising mix and more often than not at higher rents. More importantly, as Lisa indicated, we have every reason to believe given the uniqueness of

Barney's in our portfolio and the confluence of events that the elevated impact in 2020 is an anomaly.

In regards to the status of Barney's location in Manhattan, the situation remains fluid, while our store in Chelsea is one of the location that remains open for now, it's likely that when we get the space back at year-end and is a significant driver to our flat 2020 growth expectations.

We are evaluating and pursuing alternative redevelopment plans and we feel good about the prospects for replacing the rent at this high-quality location, although this would certainly come with downtime and capital requirement.

It's important to keep in mind that we continue to execute on proactive asset management and center repositioning across the portfolio. We remain highly focused on making astute long-term merchandising decisions, which sets up our centers for future success. Mac?

Mac Chandler

Thanks, Jim. Our development and redevelopment opportunities remain significant and we are well-positioned to meet the strategic objective of starting $1.25 billion in value-add developments and redevelopments over the next five years.

As retail real estate evolves, the nature of development and redevelopment is changing as well, our focus on owning and operating premier shopping centers in dense infill and affluent trade areas positions us well to capitalize on increasing opportunities for horizontal and vertical mixed-use projects.

As Lisa discussed, redevelopments are a key component for Regency to achieve 3% same-property growth over the long-term. But it's important to keep in mind that many of our current and near-term pipeline projects are larger in scale more, complex, and often include a mix of uses.

These projects typically take longer to complete and often require NOI to come offline. But once these projects stabilized, they will add substantial incremental NOI and value to our portfolio.

With that, I'd like to provide updates on some of our larger in-process and near-term redevelopment projects. Redevelopment of our former office building at Market Common in Arlington, Virginia started in the fourth quarter of 2018. As a reminder, this outdated building was vacant when we purchased it in the adjacent retail.

The redevelopment entails configuring the three-story building essentially into a new four-story mixed-use office and retail building. Construction is progressing smoothly. The building is topped out and will be weather typed by year-end.

The exceptional views of the National Cathedral and execute at least with a leading luxury Fitness operator in the second quarter are very appealing features for our prospective office tenants. We anticipate tenants to begin coming online in 2021 with an estimated incremental yield of nearly 9%.

The Abbot redevelopment located in Harvard Square started this year with the entire $1.1 million of property NOI coming offline in the first quarter. Construction is progressing nicely, particularly now the demo is complete and footings are being prepared for a ground-up building.

Leasing activity is positive and we are in negotiations with several best-in-class retailers, fitness concepts and restaurants. We estimate initial occupancy to begin in 2021 at an estimated 9% incremental yield.

Moving now to some of our near-term pipeline projects, at Serramonte Center located south of San Francisco, we expect to commence on the next phases of our redevelopment by year-end. This consists of three components that will be staggered over the next several years. The first project is the development of a new state-of-the-art 16-screen theater, as well as a 145-room hotel ground lease, several new outparcel restaurants and relocation of our successful Crunch Fitness.

The second part of the project is a renovation of the interior of the mall, as well as several new exterior entrances. Both projects will increase foot traffic, supporting our productive in-line tenants, which now average $620 per square foot and paving the way for new retail concepts, which we look forward to announcing next year. Both projects are due to start in the next quarter.

The third component is the redevelopment of the former JCPenney box, which benefits from tremendous visibility from Interstate 280. This 75,000 square foot space sets up well for a variety of junior anchors, including a specialty grocer. Groundbreaking is anticipated in 2021.

Westwood Shopping Center in Bethesda Maryland is another large-scale redevelopment that we plan to start in early 2020. It will be converting a poorly configured giant anchored center into a vibrant mixed vertical center to include retail anchored by a new giant 200 multi-family apartments, 100 units of assisted living and approximately 84 sale town homes.

Consistent with our strategy, we are partnering with best-in-class co-developers for the non-retail components. The Phase 1 retail should open in 2022, and the Phase 2 apartments at ground floor retail shall open a few years thereafter.

These are just some of our exciting projects in our near-term pipeline and we will provide regular updates on these and other significant projects on future earnings calls and in our supplemental disclosure. Mike?

Mike Mas

Thank you, Mac. Let me begin with some additional color around our third quarter earnings results and updated 2019 NAREIT FFO guidance. Third quarter NAREIT FFO includes a net positive $0.02 per share impact from a combination of one-time items.

First, a $0.01 per share negative impact from a swap breakage charge associated with the repayment of our term loan following our August bond offering. And second, an offset in $0.03 per share positive non-cash benefit from the accelerated amortization of below market rent triggered by our agreement to proactively terminate a lease with JCPenney at Serramonte.

Under the termination agreement, JC Penney will move out at the end of May 2020, which requires us to ratably amortize their below market rent through this new termination date. Therefore, we will recognize another $5 million of below market rent in Q4 of this year, in addition to the $5 million recognized in Q3, and yet another $8 million in 2020.

Our 2019 NAREIT FFO guidance has been updated to reflect these impacts. Items like these provide a good reminder of why we use core operating earnings as a metric to better measure performance as it eliminates certain non-recurring and non-cash items more closely reflecting cash earnings and our ability to grow the dividend.

As Lisa mentioned, we are confirming our core operating earnings growth range of 3% to 4% for 2019, and expect to finish near the top of that range.

Before wrapping up the call, let me first highlight one of the most important differentiating aspects of our business plan, our capital allocation and funding capabilities. We are fortunate to have access to many attractive funding options and now hold a positive outlook rating by both S&P and Moody's. And we are generating approximately $170 million of free cash flow annually, which funds our developments and redevelopments on a leverage-neutral basis.

In addition, given the quality of our portfolio, we can be opportunistic and fortifying our 3% same-property NOI growth objective through the sale of non-strategic lower growth assets and deploying that capital into the acquisition of shopping centers with superior growth prospects. To that end, we acquired two compelling assets this quarter and we are able to take advantage of several attractive sources of capital.

In August, we issued $425 million of 10-year unsecured notes at a Regency record low interest rate of 2.95%. We used a portion of these proceeds to repay our $300 million term loan with the balance partially funding, the $212 million Pruneyard acquisition. Our disposition guidance incorporates funding the remainder of this acquisition through the sale of lower growth assets on a tax-efficient earnings and leverage-neutral basis.

In September, we funded the Circle Marina acquisition located in Long Beach, California, through a combination of secured debt and operating partnership units, which is yet another funding source in our playbook. And lastly, we executed on our ATM program in September, selling approximately $130 million in gross proceeds on a forward basis.

As Mac discussed our development and redevelopment pipeline continues to grow and we are excited about the near-term value-add opportunities. We expect development and redevelopment spend to exceed our leveraged free cash flow in 2020 and proceeds from the forward ATM will be used to fund a portion of that spend.

This is a compelling funding source when priced correctly as it maintains our balance sheet strength and when compared to diluted property sales.

Our flexible funding strategy is one of the many factors that contributes to Regency being well-positioned to meet our strategic objectives over the long-term, including starting $1.25 billion in value-add developments and redevelopments over the next five years, averaging same-property NOI growth of 3%, core earnings growth of 4% plus, and with dividend growth, total returns exceeding 8%.

I'll turn the call back to Hap for closing remarks.

Hap Stein

Thank you, Mike. I'd like to take this opportunity on my last earnings call to thank not only all of the amazing Regency team members, team members that I've worked with over the last 40 years, but also to thank all the talented people in the investment community that I have interacted with throughout my career. This includes many of you who are on the phone with us today and with whom I will be able to meet with at the upcoming NAREIT.

Our constructive dialogs have truly made a contribution to Regency's success. It has been my pleasure to work with all – you all and an awesome honor to lead this special company to where it is today. I am looking forward to stepping into my new role as Executive Chairman, supporting Lisa and our exceptional team, as they successfully achieve Regency's goals.

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

Question-and-Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Nick Yulico with Scotiabank. Please proceed with your question.

Greg McGinniss

Hey, good morning. This is Greg on with Nick. Just one question from me today. You seem committed to achieving this 3% same-store NOI growth over the long-term. But I am wondering what the expected timing is on that goal?

Or if I am just misunderstanding the growth number, because if we assume 2% same-store growth in 2018 and 2019, and then I guess, the zero to low-single in 2020. Does that mean we should be assuming nearly 5% growth from there out?

Lisa Palmer

Hey, Greg, it's Lisa. Just to answer your question, we will be getting full guidance for 2020, all the components of it on our fourth quarter earnings call. And so, at this time we are not giving 2020 guidance. We are certainly not going to – we are certainly not going to dip our toes into 2021 or 2022 or 2023.

But what I can tell you is just reiterate what I said on the call that, we do have confidence that we will return to achieving our strategic objectives and do that over the long-term. We have a lot of visibility to great value-creating projects in our redevelopment pipeline, some that are already in progress and those will – that value will be harvested, the timelines, they take a little bit of time.

And interestingly, we were talking about this earlier today, even just first retenanting some of our anchor boxes, the value creation is also is highly correlated to the amount of time that it's taking to complete these projects. So, we love our portfolio. We love our development platform. We love our balance sheet. And I love our team.

They may not all love me, but – and we are really excited about the future. We think we are really well positioned to continue to be a sector-leading owner, operator, developer of shopping centers.

Greg McGinniss

Okay, thanks. But just to clarify, so the 3% growth is kind of an average expected per year, that's not necessarily like over a five year period, you'll be achieving that 3% growth?

Lisa Palmer

It's over a long-term. It is an average of 3% over the long-term. I don't know that I have the exact number with me. Laura may write it down for me. But I believe that our five year average right now is 3.4% and we had several years that we were north of 4%. So, I do believe it's achievable.

Greg McGinniss

Okay, great. Thank you.

Hap Stein

Thanks, Greg.

Operator

Our next question comes from Christy McElroy with Citi. Please proceed with your question.

Christy McElroy

Hey, good morning guys. Just following up on that flat growth expectation for 2020, is redevelopment expected to be a neutral or negative contribution? And appreciate the detail on each of kind of the larger projects.

But wondering, if you could update us on for FFO modeling purposes, sort of those downtime impact expectations for Westwood, Serramonte, Costa Verde as that space – any space comes offline over the next two years?

Mike Mas

Hey, Christy, it's Mike. With respect to the specific question on 2020 and the impact for redevelopments much more to come next quarter when we put our details. We are still refining our plans. But we did alluded to $4 million of NOI coming offline at two specific projects next year and Mac spent some time talking through those.

I would also point to you to our new disclosure, I think it's Page 19 or so in our supplement. The team has done a great job of trying to provide a little bit more visibility into the impacts of downtime. And more importantly, timing around a little bit to Greg's question, when NOI will start to return for these projects that we are working through, and then Mac took some time to step through.

Going forward, we will continue to be very descriptive on these projects, on these quarterly calls and in between – with meetings and we will be very, very sure to help everyone understand that the – it's about the ins and the outs. I would say this, we've averaged anywhere from 20 basis points to 130 basis points of positive contributions.

Obviously 2019 has been muted. And I would say that 2020 at this point in time we anticipate to look a lot like 2019.

Christy McElroy

Okay. Thanks, Mike. And then, just in terms of the forward equity raise, you mentioned that a portion of that will go to redevelopment spend. Is the balance going to acquisitions? And how do you sort of think about kind of the source of capital in terms of dispositions versus ATM issuance? Are you kind of a seller of additional equity here or has it all been kind of prefunded for 2020?

Mike Mas

Sure. It's a good question, and fair. It all starts with free cash flow. And as we've talked about a $170 million we are generating free cash flow given our low payout ratio. Importantly that's after CapEx, that's after dividend payments.

And then, we look into our capital plan for next year and again this pipeline that we are building of active developments and redevelopments is leading us to a need to raise a little bit more capital than that leverage neutral free cash flow will provide. So we look at our portfolio and we assess whether we need to activate any pruning beyond our typical 1% per year or so.

And when we looked at the price, NAV is an art, not a science. We like this price with respect to our capital plan. I think, if you – if you think about consensus NAV and maybe what that implied cap rate may be and you think about our use of proceeds into developments and redevelopments averaging about 7% returns.

We like that trade and that's how we think about managing our capital plan. Importantly, we are committed to maintaining our balance sheet. We closed the quarter at 5.5 times. We like our ratings. We like the positive outlooks that we are on with both Moody's and S&P. And we will work to preserve the strength of that balance sheet as well.

Christy McElroy

Thank you.

Hap Stein

Thanks, Christy.

Operator

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

Richard Hill

Hey, good morning, guys. Lisa, maybe first for you, just strategically, would you changed anything with your redevelopments given what you know now about this confluence of the bankruptcies?

Lisa Palmer

Absolutely not. These are really great projects. And now that we have some enhanced disclosure hopefully that you can see that as well and you can see why we are excited about some of these. And I think, Mac actually talking about them on the call and some of you have even had an opportunity. And we even touched on some others.

Some of you have had an opportunity to visit some of these even or others like Town and Country. We are going to have an opportunity in Atlanta. So there is a lot of really exciting projects. And this is a – it's a marathon, it's not a sprint and we are focused on long-term value creation for our shareholders.

Richard Hill

Got it. That's helpful and very reassuring. I do have a follow-up question. I know you're not looking to give guidance right now. And I think we had a lot of us are trying to get out on the call is the mix between, maybe how much the redevelopment versus the confluence of bankruptcies is weighing on the flat growth?

Do you have any sense of, is it 75% of bankruptcies and 25% the redevelopment? How should we think about that mix?

Mike Mas

You're going to hear this a lot potentially today, but Rich, more to come obviously. but let's – we can't talk about some of the facts that are out there and you should all be aware of. From a bankruptcy perspective, since 2015, we've averaged between 10 and 60 basis points of impact. If you just think about Barney's and IPIC, just as the unique bankruptcies that were up against next year, that's 80 basis points alone in two tenants.

So, that's far exceeding what we would call regular way business. So I think keep that in mind as you think through the impacts for 2020. I think the redevelopment contribution is what it is. It's another year of given the ins and outs of NOI, another year of muted contribution, which will look a lot like 2019.

Richard Hill

Got it. That's it for me. Thank you for the disclosure on the assets one-by-one. That's really helpful from our perspective.

Hap Stein

Thanks, Rich.

Operator

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

Craig Schmidt

Yes. Just, thinking about the small shops, roughly on average, how many months does it take you to go from a closed store to one that is open and paying rent?

Mike Mas

Craig, I think we will probably in the – I must say eight month range. But I would say from lease execution to RCD is probably closer to four.

Craig Schmidt

Okay. That's helpful. And then, will you be doing any lease modifications in 2020?

Lisa Palmer

In what sense, Greg?

Craig Schmidt

Where you – fearing to store closing, you may negotiate lower rents to keep them in place.

Lisa Palmer

I would – rent reduction, I think about the rent releases.

Mike Mas

We obviously take every situation on its own. Every deal stands on its own. We are appropriate and I'd suggest one of the reasons you saw a slight tick downturn on the renewal rates was effectively we had in this particular quarter, we had a couple of deals that I would call, standing still retailers. Keeping them placed until we can get them backfilled.

And you may take a little bit of a hit on a short-term basis to keep the space filled while you market the space. So, in general, I think, we've been pretty tough on rent reduction. Generally, we want our space back, if the tenant doesn't want to play by the rules, if you will. And we have found good success in reletting our space, when we get it back.

Hap Stein

And that's the exception rather than the rule.

Mike Mas

That is exception.

Hap Stein

It may happen, but…

Mike Mas

If it happens, it's generally very short-term in nature.

Craig Schmidt

Okay, thank you. That is helpful.

Operator

Our next question comes from Shivani Sood with Deutsche Bank. Please proceed with your question.

Shivani Sood

Hi, good morning. Switching to the private market side, we've heard from your peers that, that the investment markets, especially for the high-quality assets you are looking for is exceptionally tight right now.

So, if you could just comment on what you think is differentiating Regency from the peer set in the bidding process just given the higher volumes in the more accretive cap rates we are seeing year-to-date versus the initial guidance?

we are seeing year-to-date versus the initial guidance?

Mac Chandler

Hi, this is Mac. Thanks for your question. I do agree with that observation that, in fact the market is very tight there. There are very few qualities of the type of quality that we are looking for. We have a very high bar. And you are right, we have been successful buying properties off market, not just this year, but over the last several years.

We've got a track record for that. And I'll just use the Pruneyard as an example. That was off-market. The seller came directly to us based on our reputation and our ability to close quickly and to get our arms wrapped around it. I think an advantage is our 22 markets. We are in the market and we know these properties very well.

Circle Marina is another example where we own three centers within half a mile and we've driven past this center for many, many years. It's been on our watch list and we simply approach the owner for many years and we finally came to terms with them. So it really gives us an advantage being out in the markets and having a reputation for being able to close quickly into settle at a price that was agreed upon.

Shivani Sood

Thanks for that color. And then, understanding the residential isn't a huge part of their redevelopment at Town and Country Center. But have the recent changes due to the rent laws in California changed how you are underwriting that or thinking about that project?

Mac Chandler

That particular one is, is interesting in a sense that we have a 99-year ground lease with an apartment developer, who is going to develop that. And so they'll construct it. They'll own it. We have increases in that rent. So, they have no hesitation on moving forward with the project. We've been working with them for about a year now. We are into the city and we see no reason why that transaction would not close and they would commence rent as agreed upon. So, we keep an eye on it. But certainly our partner and partner in this case being the ground lessee, is – doesn't have any concerns.

Shivani Sood

Okay. Thanks for that color.

Hap Stein

Thank you.

Operator

Our next question comes from Jeremy Metz with BMO Capital Markets. Please proceed with your question.

Jeremy Metz

Hey, good morning. Just going back to the commentary on the investment activity. Obviously recognizing somewhat of a tight market, but you've also been pretty successful year. Here you mentioned the market strategy and that's driving some additional deal flow. So, beyond what you've closed already and what you outlined on the disposition front, you have the $200 million close your guidance is $300 million.

Do you have additional stuff either on the market for sale beyond that $300 million that we should be thinking about and on the buy, is there anything that's really kind of active in the pipeline that you are excited about that could maybe come to fruition here or early next year?

Mac Chandler

Sure, Jeremy. This is Mac. One of the advantages of buying a center like, The Pruneyard is it gives us an opportunity to exchange a property that we sell that has an embedded tax gain. And so, we do have a couple properties that we are looking to sell, where we would exchange that gain and park it into the Pruneyard.

However, we don't feel that we are under any pressure to close that sale. But we do have a couple transactions that are out there. And you are right that makes up about the remaining 100 million. And if it works, it's great. But, like I said, we are under no pressure to consummate that. So, we don't usually get into the exact transaction, just details to it.

On the buy side we are always in the market. We are always looking for properties. That's how we've been successful in the past and if opportunities that are compelling and meet our high or high bar for quality and income growth come our way, we'll address those as they come.

Jeremy Metz

All right. So doesn't sound like necessarily an M&A here? And then Lisa, thanks for the initial color on 2020. On the same-store NOI expectations as we take that into account, the details you outlined, the impact from Barney's. Just thinking about managing expectations here, should we be thinking about earnings growth around a similar level to that or Is there anything positive or negative that could swing higher or lower from there?

Lisa Palmer

Again, we'll give a lot more detailed guidance in the quarter. But as I said in the prepared remarks that we expect those to be in a similar range.

Jeremy Metz

Got it, Mac and Lisa, thanks.

Mac Chandler

Thanks, Jeremy.

Operator

Our next question comes from Samir Khanal with Evercore. Please proceed with your question.

Samir Khanal

Good morning, Mike, or Lisa. I guess on Barney's. I'm just trying to get a little bit more color, if you have that. I mean, if you were to get the space back, I mean, how long do you think you get sort of property entitlements on that and then – and get a tenant back in? And also, how should we think about the rent on that box? I know it's about 80 bucks a foot there, I mean, how should we think about the economics?

Mike Mas

Let me start, and I'll kick it to Jim, as he maybe provide a little bit more color on how he is thinking about the space. But Samir, as we said, we are effectively planning for Barney's to be down next year. So much more to come as we roll out our guidance for 2020 and then we'll continue to report on this project as we have and enhanced our disclosure on the other projects.

We'll treat Barney's very similarly and get as much visibility as we can to the extent of the downtime, the extent of the capital and when we anticipate that rent coming back on board. But I'll let Jim speak to what we have been doing to this point. What our thoughts might be.

Jim Thompson

Thanks, Mike. We really like the real estate and we will be able to replace that revenue. Our team is actively engaged as we speak in evaluating the alternative scenarios. And obviously, the different uses that may be available to us. But as Mike said, much more to come, but we are diligently pursuing all the avenues at this point.

Samir Khanal

Okay. And I guess, a follow-up maybe a big picture question, Lisa. It sounds like you're a little – you are being a little bit more active on projects sort of late in the cycle, whether it's the redevelopments, or even in the development side, maybe taking space offline even at Westwood. I guess, how are you balancing that decision to do more projects with the potential server of a – the overhang of a risk coming from an economic slowdown, given that there is a lot of economic uncertainty out there?

Lisa Palmer

Gosh, If I knew when the next downturn was going to be, I might not be sitting at this table. I might be somewhere else. These projects are really generational projects and it's especially the redevelopments, right, real estate that we already own. And really high barrier markets, infill neighborhoods and even in what was obviously, right, the second worst recession in our country, in back in 2009, these types – this quality real estate that we own still performed really well.

And so, we don't have our heads in the sand. We know, we realize that there is a lot of clouds out there in terms of economic uncertainty, but these projects I believe will even perform well and withstand what that the economic cycles that we know are coming.

Samir Khanal

And they'll go through the cycles.

Lisa Palmer

And they will go through the cycles.

Samir Khanal

Okay. Thank you.

Operator

Our next question comes from Wes Golladay with RBC Capital Markets. Please proceed with your question.

Wes Golladay

Hey, good morning to everyone. Can you give us an update on your tenant watch list? I mean, from last quarter, it sounds like it was a few percent, but now it sounds like you are cycling through a few of those tenants. So did that come down? And what is your remaining department store exposure?

Mike Mas

Hey, Wes, this is Mike. From a watch list perspective, three is really no change quarter-over-quarter from what we've talked about in the past. Tenants, as you'd mentioned have come off the list. So, there is no longer impacts of Sears, et cetera and Barney's is now moving to a different class. But as we look forward, obviously we are – our eyes around tenants like Pier 1 and others.

We are taking care of JCPenney as we mentioned with the termination agreement. But I would say, it's essentially pretty neutral. I'll go back to the bankruptcy history that we've absorbed into our NOI that figure, since 2015. It's been in that 10 basis point to 60 basis point range for tenants that are outside of this Barney's/IPIC situation that we are currently looking at.

Wes Golladay

Let me just clarify, were they on the list of the Barney's, the JCPenneys, the Pier 1s and the...

Mike Mas

Absolutely.

Wes Golladay

Okay. So – but is that, I mean, some backfilling now?

Mike Mas

No. I mean, we are just generally in that same range. I would think historically it's been our watch list maybe we'll walk through that. We think about it in three categories. We obviously are financial from a bankruptcy risk perspective. And then, when we look at store closure risk and that's where you can have – we want our teams to be aware of the change that are looking to rationalize their fleets.

Generally speaking Regency does well in that regard. We typically own the centers that perform in the upper half, upper quartile of those change and in the rationalization scenario, we don't generally lose as much space as you otherwise would think.

And then lastly, we'd like to include operators to retailers who are – may not be in financial distress, or actively shrinking their fleet sizes, but maybe came through some operational changes that we just want to be aware of. You put all that together, it is probably a tick down because of the fact that we moved Sears through the list and we are going to move Barneys through the list, but it's about the same, Wes.

Wes Golladay

Okay. And then what about the remaining department store exposure?

Mike Mas

What is that?

Jim Thompson

It's mainly Macy's, in a very, very low rent

Wes Golladay

At Serramonte?

Jim Thompson

Yes, at Serramonte

Wes Golladay

Got it. Thank you.

Operator

Our next question comes from Vince Tibone with Green Street Advisors. Please proceed with your question.

Vince Tibone

Hi, good morning. What was the rationale for doing a forward equity offering versus just issuing equity through the ATM today?

Mike Mas

Hey, Vince, this is Mike. We've used forward sales before. So we have a track record of that tool. We like that opportunity for us to best match fund our needs. So as we look to our capital plan for 2020 and we pointed this towards building redevelopment pipeline. That's in effect why we use the forward?

Vince Tibone

And is there, is there more fees than just doing a normal offering just from my perspective I am trying to get a sense of – I get the match funding or it helps a little bit with I guess earnings dilution in the near term, but are there more fees that accompanying it forward?

Mike Mas

On the extreme margin it is a - just a touch more fees, but it is negligible.

Jim Thompson

Yes. I mean, economically, the forward is better or else we wouldn't choose to do it.

Vince Tibone

Got it. And then just for – and you can do this in multiple phases over the next 12 months? Or is that a one, one-period you will get the full equity raise or one day, rather?

Mike Mas

It's at our discretion, Vince. And we will be very clear, either in the guidance that we'd roll out next quarter or on subsequent calls on our timing, as we have in the past when we've had outstanding forward issuances?

Vince Tibone

Got it. That's really helpful. And one more, just shifting gears a little bit. Could you talk a little bit about the trends you are seeing in the small shop segment of your portfolio? Specifically, kind of, I am curious which retailers or merchandise categories are kind of moving in and out of those, of the shop space in general?

Jim Thompson

Jim Thompson

Yes, Vince, this is Jim. As evidenced I think by the leasing progress we've made this year, I think you can see, we feel the market is still strong. Our pipeline is robust. The categories, it's really the same folks that we've been doing business with the off-price, the fitness, beauty, medical, restaurants, obviously. But it's really - we are seeing good activity across all our regions and activity remains strong. I think our fundamentals, we feel real good about our fundamentals.

Vince Tibone

Just on the fall outside then just because I know leased occupancy has been flat throughout the year and within shops, but where has fallouts been kind of just as a result of bankruptcies? Are you seeing any weakness with mom-and-pop tenants?

Just curious, if you elaborate a little bit more on where you've seen the kind of drop out of shop tenants, because does it sound – does it seem like the demand side is still there? But you and others across the sector have had flat to the negative shop occupancy changes of this year?

Lisa Palmer

I am going to lead Jim to the water. I want to remind everyone that our shop percent leased is, it's at a pretty healthy level. And I think, 91.5%.

Mike Mas

91.6%.

Lisa Palmer

91.6%. So, can we increase that and add occupancy, I think we can. But I also believe that of those that have reported, I think we might be the high watermark. So, that's just part of the business. And we've recently did a market showcase in Raleigh and I reminded people that were there that when we are buying a property and we do underwriting and we underwrite renewal rate we essentially say one out of every four tenants are going to fail.

So, that's our business. And the way that we manage that is, very proactively as Jim even alluded to earlier in terms of when people are coming up for renewals, the ones that are kind of standing still, we are really evaluating. Is this a tenant that we think is going to be able to survive and not just survive, but thrive and really drive traffic and energy to our centers.

So, I think that 91.5% and while I do believe that we could increase occupancy, if we kept it flat, I think that that would help meet our expectations.

Vince Tibone

No, that's really helpful color. Thank you. That's all I have.

Mike Mas

Thanks, Vince.

Operator

[Operator Instructions] Our next question comes from Michael Mueller with JP Morgan. Please proceed with your question.

Michael Mueller

Yes, hi. In terms of the flat same-store NOI outlook for next year, can you give us a sense as to how the timing of some of the bankruptcies is expect, excuse me, expected to play out, because obviously the later that it hits in the year, the more it's going to bleed over into 2021, as well?

Mike Mas

Hey, Mike, more to come on timing of all of our expectation supporting, what I will clarify to be flat to slightly positive, 2020 expectation. However, we all know Barney's is in bankruptcy. We all know IPIC is in bankruptcy. So, it would be safe to assume that we are taking the full brunt of that in 2020.

Michael Mueller

Got it. That was it. Thank you.

Mike Mas

Thanks, Mike.

Operator

Our next question comes from Linda Tsai with Jefferies. Please proceed with your question.

Linda Tsai

Hi, good morning. Taking into account your low payout ratio, especially compared to your peers, but acknowledging that you are using free cash or developments and redevelopments. Does this reduce the probability that you'd raise your dividend more aggressively, maybe during this period where same-store is below your longer term growth target?

Lisa Palmer

Before Mike answers, let me remind you that to that free cash flow is after dividends.

Mike Mas

Correct. And Linda, we are committed to – we are committed to increase in our dividend annually. We made that statement very clear. I think, we reinstituted the annual growth of around 2014 when we made the pivot from portfolio enhancement. And then what we've also said is, we are be given that low payout ratio that our dividend growth rate would approximate our earnings growth rate.

I would say that flat to slightly positive should translate to a similar amount of dividend growth, although, we do have the flexibility and the capacity to be flexible there. So more to come. But we do anticipate that maintaining that commitment to annual dividend increases.

Linda Tsai

Thanks for that. And then just broadly speaking, I know you're not giving guidance, but what's the general view in terms of the balance between acquisitions and dispositions for next year?

Mike Mas

Like I said, and I'll repeat, we like our portfolio. We are – at the same time, we are committed to continued recycling of a small amount. We think that, that pays dividends going forward in our exposure to at risk tenants and in our ability to meet our long-term strategic objectives of growing NOI at 3% or better. So, more to come. But I wouldn't be surprised to see guidance that is in the approximation of what we've done historically which has been in that 1% range.

Linda Tsai

Thanks.

Mike Mas

Thank you, Linda.

Operator

[Operator Instructions] There are no further questions at this time. At this point, I'd like to turn the call back to Hap Stein for closing comments.

Hap Stein

Yes. Once again, I want to thank all my friends in the investment community. It has been a real treat working with you. And I look forward to seeing a number of you at the upcoming NAREIT. Everybody have a great day. Enjoy Halloween with your family and a weekend beyond that.

Thank you very much.

Operator

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