

Regency Centers: How Fast Should the Pipeline Grow?

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Decision scope: Development and redevelopment starts over the next five years

Case convention: This is an author-created management decision exercise. The decision assignment is hypothetical; company disclosures are historical. It does not represent private deliberations.

The decision

Regency Centers had announced a goal of starting more than \$1 billion of development and redevelopment projects over five years. Its current in-process pipeline was estimated at \$547.1 million of project costs at Regency's pro-rata share. Management estimated that pipeline would stabilize at about a 9% yield, with 46% of costs incurred and approximately \$295 million remaining. These figures described different stages of a capital program: **starts** mark projects entering the pipeline; the pipeline figure is estimated total project cost; and annual **spend** is the cash investment expected during a particular year. They cannot be added or substituted for one another. [S1], pp. 24, 27; [S2], pp. 28, 38-39.

The target offered a path to growth through Regency's grocery-anchored centers, development platform and tenant relationships. Yet construction and redevelopment require capital before rent stabilizes. A reported stabilized yield was a management estimate, and the June presentation supplied no formula or denominator. It was not an IRR or a realized return. Interest rates, tenant readiness, cost changes and timing could alter project economics before completion. [S1], pp. 26-27, 49; [S2], pp. 28-29, 37-39.

Assignment: As a hypothetical member of Regency's capital-allocation team on June 4, 2024, recommend how the company should pursue its more-than-\$1-billion five-year starts objective. Choose whether to maintain the announced pace with project gates, phase starts more selectively, or direct some marginal capacity toward acquisitions, dispositions/recycling or debt reduction. Set out the evidence and triggers that would change your recommendation. Use only information available by the cutoff.

A grocery-centered property platform

Regency owned, operated and developed neighborhood and community shopping centers. At March 31, 2024, its June presentation described a portfolio of more than 480 properties and 60 million square feet, with more than 80% grocery-anchored. Management characterized grocers as traffic and frequency drivers and necessity retailers as a source of durable demand. Whether a particular anchor creates incremental traffic and rent for surrounding shops, however, depends on the center and its trade area. [S1], pp. 3-4, 9-12.

The operating snapshot gave reasons to invest and reasons to look closely at execution. In the first quarter, same-property occupancy was 95.8% leased but 92.1% commenced. Comparable new and renewal lease spreads were 8.5% on a cash basis and 17.4% straight-line. Same-property net operating income grew 2.1% after excluding lease termination fees and collections of older reserved receivables. These are portfolio-level figures; executed lease spreads do not describe every property, and leased space is not necessarily yet paying rent. [S3], “Portfolio Performance” and “Leasing Activity.”

What is in the pipeline?

Regency reported \$80 million of estimated net project costs at its share for first-quarter development and redevelopment starts. Its March 31 in-process schedule totaled \$547.1 million pro rata, up from \$468.1 million at year-end. The schedule combined \$220.224 million of development costs and \$326.899 million of redevelopment costs. The company estimated that 46% of the in-process project costs had been incurred, leaving about \$295 million. “Incurred” describes the reported cost measure; it is not the same as cash paid, committed funds, or percentage of physical completion. [S2], pp. 28, 38-39; [S3], “Developments and Redevelopments”; [S1], p. 27.

The in-process projects had an estimated stabilized yield of approximately 9%, according to management. The presentation did not disclose the calculation formula or denominator. Students should not interpret that estimate as a project IRR, a realized yield, or a return net of all financing and execution risk. The company separately defined value creation using stabilized underwritten NOI capitalized at a market cap rate, less estimated development costs. That separate measure also depends on estimates. [S1], pp. 27, 49.

One project illustrated why a portfolio average might conceal meaningful variation. Regency described The Shops at Stone Bridge as a planned 152,000-square-foot, \$67 million ground-up project anchored by Whole Foods and TJ Maxx, with an estimated yield of about 7%. The project was planned within a mixed-use master community. The public materials did not supply its full lease-up schedule, cost-overrun range, funding costs or exit assumptions. One example does not establish the distribution of returns across the pipeline. [S1], p. 28; [S3], “Developments and Redevelopments.”

Exhibit 1. Capital program measures

Measure	Reported figure	What it measures
Five-year development/redevelopment objective	More than \$1bn	Targeted starts over five years
2023 development/redevelopment starts	\$251m	Estimated costs associated with projects started during 2023
Q1 2024 starts	\$80m	Estimated net project costs at Regency's share for projects started in the quarter
In-process pipeline at 31 March 2024	\$547.1m	Estimated pro-rata project costs across active projects
In-process costs incurred	46%	Management-reported share of project costs incurred; not cash paid or physical completion
Estimated remaining in-process costs	About \$295m	Management estimate of costs remaining in the active pipeline
2024 development/redevelopment cash-spend guidance	About \$180m	Expected investment during 2024
Annual development/redevelopment investment target	About \$250m	Management's annual investment objective

Sources: [S1], pp. 24-27, 36; [S2], pp. 28, 38-39; [S3], "Developments and Redevelopments." Values are management-reported and may use different project cohorts, definitions and timing. The 46% is not applied as an exact dollar amount in this exhibit; the reported remaining-cost figure is approximately \$295 million.

Funding capacity and competing uses

Regency said it expected more than \$160 million of annual free cash flow after dividends and estimated more than \$300 million of annual investment capacity when including leverage-neutral debt and organic EBITDA growth. Its annual development/redevelopment investment target was about \$250 million. These were planning estimates, not guaranteed funding. They also refer to investment capacity and expected annual investment, not the total cost of starts or the full costs of the active pipeline. [S1], pp. 40-41.

At March 31, Regency reported more than \$1.7 billion of liquidity, including \$1.5 billion of revolver capacity and approximately \$230 million of cash. Pro-rata net debt and preferred-to-EBITDA was 5.4x, or 5.2x when adjusted for the annualized contribution from its Urstadt Biddle acquisition. Management's leverage target was 5.0-5.5x. The company also noted that higher interest rates could pressure borrowing costs and earnings growth. Available liquidity therefore did not eliminate the opportunity cost of committing capital. [S3], "Capital Allocation and Balance Sheet"; [S1], pp. 31-32, 40-42.

Development was not the only stated use of investment capacity. Regency identified accretive acquisitions, share repurchases and debt paydown as possible alternatives. Management's February earnings-call transcript described a light acquisition pipeline at that time, but opportunities could change. An acquisition might provide nearer-term income and avoid

construction risk; it could also be expensive or fail to meet quality and accretion requirements. Debt reduction could protect leverage capacity while forgoing project growth. The case record does not provide a comparable risk-adjusted return for these alternatives. [S1], pp. 24, 40-41; [S4], pp. 3-5, 11-12.

Managing uncertainty

Regency said it sought to reduce development risk through pre-leasing, entitlements and bids covering most project costs, and that it evaluated yields against its cost of capital. These practices may screen projects before major commitments, but the public materials did not quantify cancellation rights, cost-bid coverage, pre-lease quality or residual delay risk. The 10-Q also noted that redevelopment timing and duration could cause NOI volatility. [S1], p. 26; [S2], pp. 28-29, 37-39.

The academic evidence provides mechanisms, not a Regency-specific answer. Studies of commercial property investment suggest uncertainty and irreversibility can increase the value of waiting; the evidence includes older office markets and aggregate property categories. Research on shopping malls and department-store anchors describes both positive tenant spillovers and competitive effects, but it does not estimate the effect of grocery anchors on Regency centers. No study in the packet supplies a project hurdle, tenant-mix formula or return forecast for Regency. [A1]-[A5].

That left the capital-allocation question open. Maintaining the announced goal could exploit Regency's platform and current leasing conditions. Phasing could preserve flexibility while tenant demand, construction costs and financing conditions evolved. Reallocating capital could reduce execution exposure or capture a different opportunity, but the evidence did not establish that acquisitions or debt paydown would outperform the next project.

Decision memo

Prepare a two-page recommendation for the hypothetical capital-allocation team. Address:

1. Whether to maintain the five-year starts objective, phase projects, or reallocate part of the marginal investment capacity.
2. The project-level gates and evidence you would require before a start, including how you would handle pre-leasing, entitlements, cost certainty, tenant mix and financing.
3. How you would distinguish starts, total project costs, incurred costs, remaining costs and annual cash spend in monitoring the plan.
4. The trade-off against acquisitions and balance-sheet uses, while respecting the stated leverage range.
5. The indicators and decision date that would cause you to accelerate, defer or redirect capital.

You may present more than one defensible recommendation. Do not assume that the announced goal is irrevocable, that a management-estimated stabilized yield equals realized return, or that a portfolio-level leasing statistic resolves a specific project's economics.

Sources

- **[S1]** Regency Centers, *Investor Presentation, June 2024*, published June 4, 2024. [PDF](#). Metrics generally as of March 31, 2024; cited printed slide pages.
- **[S2]** Regency Centers Corporation and Regency Centers, L.P., Form 10-Q for quarter ended March 31, 2024, filed May 3, 2024, SEC accession 0000950170-24-052749. [SEC filing](#). Relevant printed pages 28-29 and 37-39.
- **[S3]** Regency Centers, Q1 2024 results, Exhibit 99.1 to Form 8-K, issued May 2, 2024, SEC accession 0000950170-24-052255. [SEC exhibit](#).
- **[S4]** Regency Centers, Q4 2023 earnings call, Refinitiv edited transcript, event February 9, 2024. [Transcript PDF](#). Corroborative management remarks; not a verbatim company filing.
- **[A1]** Fu and Jennen, "Office Construction in Singapore and Hong Kong: Testing Real Option Implications," *Journal of Real Estate Finance and Economics* 38 (2009): 39-58. [Publisher version](#).
- **[A2]** Holland, Ott and Riddiough, "The Role of Uncertainty in Investment: An Examination of Competing Investment Models Using Commercial Real Estate Data," *Real Estate Economics* 28 (2000): 33-64. [Published record](#); accessible 1995 working-paper version was reviewed.
- **[A3]** Bloom, Bond and Van Reenen, "Uncertainty and Investment Dynamics," *Review of Economic Studies* 74, no. 2 (2007): 391-415. [Journal record](#). Abstract read only.
- **[A4]** Pashigian and Gould, "Internalizing Externalities: The Pricing of Space in Shopping Malls," *Journal of Law and Economics* 41, no. 1 (1998): 115-142. [Publisher abstract](#).
- **[A5]** Clapp, Ross and Zhou, "Retail Agglomeration and Competition Externalities," *Journal of Business & Economic Statistics* 37, no. 1 (2019): 81-96. [Publisher DOI](#). Abstract/bibliographic record only.