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Kimco Realty (KIM) Earnings Report: Q3 2015 Conference Call Transcript

The following Kimco Realty conference call took place on November 5, 2015, 10:00 AM ET. This is a transcript of that earnings call:

Company Participants

- David Bujnicki; Kimco Realty Corporation; Vice President
- David Henry; Kimco Realty Corporation; Vice Chairman, President, CEO
- Glenn Cohen; Kimco Realty Corporation; CFO
- Conor Flynn; Kimco Realty Corporation; President, COO
- Milton Cooper; Kimco Realty Corporation; Executive Chairman
- Ross Cooper; Kimco Realty Corporation; Executive Vice President, CIO
- Glenn Cohen; Kimco Realty Corporation; CFO

Other Participants

- Christine McElroy; Citigroup; Analyst
- Ki Bin Kim; SunTrust Robinson Humphrey; Analyst
- Lina Rudashevski; JP Morgan; Analyst
- Ki Bin Kim; SunTrust; Analyst
- Ryan Peterson; Sandler O'Neil; Analyst
- Craig Schmidt; BofA Merrill Lynch; Analyst
- Paul Morgan; Canaccord Genuity; Analyst
- Jim Sullivan; Cowen Group; Analyst
- Geprge Auerbach; Credit Suisse; Analyst
- Christopher Lucas; Capital One Securities; Analyst
- Richard Moore; RBC Capital Markets; Analyst
- Haendel St. Juste; Morgan Stanley; Analyst
- Linda Tsai; Barclays; Analyst

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Kimco's third quarter 2015 earnings conference call. All participants will be in listen-only mode.

(Operator instructions)

After today's presentation there will be an opportunity to ask questions.

(Operator instructions)

Please note, this event is being recorded. I would now like to turn the conference over to David Bujnicki, Vice President. Please go ahead.

David Bujnicki: Thanks. Good morning and I thank you all for joining Kimco's third quarter earnings call. With me on the call this morning are Milton Cooper, our Executive Chairman; David Henry, Chief Executive Officer; Conor Flynn, President and Chief Operating Officer; Glenn Cohen, CFO; as well as other key executives who will be available to address questions at the conclusion of our prepared remarks. As a

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reminder, statements made during the course of this call may be deemed forward-looking and it is important to note that the Company's actual results could differ materially from those projected in such forward-looking statements due to a variety of risks, uncertainties, and other factors. Please refer to the Company's SEC filings that address such factors. During this presentation management may make reference to certain non-GAAP financial measures that we believe help to investors better understand Kimco's operating results. Examples include, but are not limited to, funds from operations and net operating income. Reconciliations of these non-GAAP financial measures are available on our website.

Before we begin, allow me to remind everyone that Kimco is hosting an Investor Day on December th in New York City at the Palace Hotel. If you haven't signed up there's still time to RSVP to this event. Please contact my office and we'll send the invitation to you. With that, I'll turn the call over to Dave Henry for his final prepared remarks as CEO of Kimco. I believe his office furniture is being inventoried as we speak. (Laughter)

David Henry: I'm pretty sure I saw Glenn in there eyeing my couch. Good morning and thank you all for calling in today. As I prepare to pass the baton to Conor on January , and after earnings calls over the last years, permit me to give you a few personal thoughts. First, it has been a sincere pleasure to personally meet and spend time over the years with most of the analysts and investors on the call today. Everyone has been gracious and thoroughly engaging, while unabashedly providing me and their team their thoughts and opinions. This has been enormously helpful to me and our Company.

Second, I'd like to emphasize the strengths and advantages of Kimco from a very high level as I see them. The firm founded by Milton and Artie Kimmel more than years ago is a retail powerhouse in terms of its size, diversification, balance sheet, dividend safety, national scale, tenant relationships, and industry contacts. We are the retail partner of choice for many private equity and institutional owners of both retail operating companies and retail property assets. Our opportunistic culture and investing disciplines have resulted in many wonderfully profitable investments for our shareholders. Most recently our sale of Supervalu stock and the pending Albertson's IPO.

Third, the investment world sometimes, in my opinion, focuses a little bit too much on a simple metric as a proxy for the prospects of a REIT or the quality of its portfolio. In our case it has been and will continue to be a deeper story of corporate financial strength, size, scale, and a culture totally focused on creating value for our shareholders. We have more properties, more local offices, more individual tenants, and more retailer relationships than any of our peers. And combined with one of the lowest dividend payout ratios in the industry and our strong BBB plus investment balance sheet we stand second to none. Our portfolio after more than $ billion of retail property sales and close to $ billion of retail property acquisitions over the past five years, now consists of a very broad group of very high quality properties in excellent long-term growth markets, with numerous very accretive redevelopment prospects.

Now stepping down off the soapbox and focusing on our third quarter, we are pleased to report excellent financial results for the quarter. Together with a dividend increase of .% and a guidance increase. As usually, Glenn and Conor will discuss the specific details while Milton will close with some general thoughts. Overall, both our earnings and portfolio fundamentals are solid. Helped by the portfolio upgrade, accomplished through the sale of our lower tier retail assets, and numerous high quality acquisitions. The open air property sector in general continues to have bright prospects due to limited new supply and the continued expansion of both national discounters and service-oriented retailers. Most of our top tenants are committed to significant store expansion plans and effective rents and leasing spreads are rising markedly.

With respect to our corporate strategy, our US property dispositions will be largely completed this year, and we have moved quickly in Canada taken advantage of historic low cap rates by selling properties to our Rio Kim joint-venture partner with additional sale properties pending totaling CAD million Canadian.

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of the additional properties are being sold to either third parties or other Canadian joint-venture operating partners. Due to today's low cap rates compared to the high cap rates when we entered Canada in , we have substantial gains embedded in our portfolio, and we have structures our transactions to reduce the tax effects as much as possible. As such, our exit from Canada will be measured but we do expect to have largely monetized our Canadian assets during . At that point Kimco will be totally focused on the US and we will self-manage virtually all of our properties. We continue to feel very positive for at least the next several years about the underlying fundamentals of our open-air retail properties, and the markets we've chosen to focus on.

E-commerce has been effectively incorporated into brick and mortar store operations as show rooms, last mile delivery, and brand awareness become more and more critical to successful retail businesses. I do hope everyone took note of Amazon's announcement on Tuesday that they have opened their first full brick and mortar store in Seattle. Amazon has now formally recognized that the omnichannel concept is very successful, and that physical stores are important components of growth, even for e-commerce retailers. As a quick update on the Albertson's IPO, the actual IPO S filing remains open to provide future timing flexibility. Store operations also continue to perform well, and the integration of Safeway and Albertson's has progressed very smoothly. Now I'd like to turn to Glenn, Connor, and Milton for their thoughts.

Glenn Cohen: Thanks, Dave, and good morning. Our third quarter results were strong with significant progress made on the disposition and simplification fronts. Even with some headwinds from the bankruptcy of Anna's Linens and A&P, our overall portfolio operating metrics continued to produce solid results. Headline FFO per share, which represents the official name redefinition and what's used for first-call consensus, was $.$. for the third quarter, $.$. above consensus. Included in the headline amount is the further monetization of our Supervalu stock investment, which provided a gain of $. million, our plus business at work, and $. million from profit participation earned from the sales of the Canadian preferred equity investment. For the months headline FFO per share is $. up from &. for the same period last year, a .% increase. FFO adjusted per share or recurring FFO, which excludes transactional income expense and non-operating impairments, was $. for the third quarter. Same level as reported in the third quarter last year.

Our results include an increase in recurring consolidated EBITDA of $. million, driven primarily by the operating portfolio, which was offset by prior interest of $. million related to debt-assumed connection of the Kimstone acquisition earlier in the year. For the nine months FFO adjusted per share is $. up from &. fro the comparable period last year, a .% increase. We are pleased that we have successfully continued to grow our earnings, while dramatically transforming the portfolio with sales in the US, Mexico, Latin America, and Canadian asset sales totaling over $. billion over the past months. We have mitigated much of the diluted impact with the acquisition of over billion US properties in our key markets, many of which resource from our joint venture programs and from reduced debt costs with well timed debt refinancings.

Our portfolio operating metrics remain solid. US pro rata occupancy stands at .%, up basis points from the year ago. The bankruptcy of Anna's Linens nicked occupancy by basis points this quarter. The team is focused on filling these boxes over the coming months. Breaking it down further, our anchor boxes are .% leased, up basis points from a year ago, and small shop occupancy is %, up basis points from a year ago. Our leasing team continues to deliver strong leasing spreads with new leases up .%, and renewals and options up .%, for combined positive leasing spreads of . for the quarter.

US NOI growth was .% for the third quarter, compared to a .% comp last year. Bringing our US same-site NOI growth to the months to %, in line with our guidance range of % to .% for the full year. The key driver for our same-site NOI growth has been the increase in minimum rent of %, and improved recoveries and other revenues which added another basis points. Same-site NOI growth was negatively impacted by

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points due to higher credit loss reserves acquired primarily from the bankruptcies previously mentioned. Combined same site NOI growth including Canada, but excluding the negative basis point impact of currency, was .% for the third quarter and .% for the nine months.

For a few comments on balance sheet and capital market activity. We remain confident that we will reach our goal of six times consolidated net debt through recurring EBITDA by year end without the need for any common equity. This will be a swift improvement from the . times level at the end of the first quarter. We ended the third quarter at . times, the same as last quarter. We had anticipated closing the first part of the RioCan sale by September , but due to regulatory issues we did not complete the transaction until the beginning of October. Consolidated net debt to EBITDA on a pro forma basis, including the sale of RioCan, would be . times. Subsequent to quarter end we successfully tapped the volatile bond market issuing a $ million seven-year bond at a coupon of .%, with a spread right on top of our secondaries. Proceeds will be used to pay higher coupon debt. The issuance of addresses our remaining maturities in of $ million, and more than a third of the maturities due in . In addition, we have immediate liquidity in excess of $. billion as of today with cash on hand, and $. billion available on our revolving credit facility.

We also announced the redemption of our $ million, .% class A preferred stock which will occur on November . We will record a $. million non-cash charge related to redemption in the fourth quarter which will impact our headline FFO. Proceeds from our anticipated sales mentioned in our press release will be used to fund the redemption. The redemption will result in reduction of our fixed charges by $. million annually. Based on our solid results through the first nine months and expectations through the remainder of the year, we're raising our headline FFO per share guidance to $. to $., which includes the redemption charge mentioned above and minimal additional transaction for the fourth quarter. We're also tightening our FFO as adjusted per share guidance range to $. to $. from the previous guidance range. Guidance for will be provided at our Investor Day in December. Lastly, we're pleased to announce that based on our performance, our Board of Directors has improved an increase in the cash dividend to $. cents per quarter, up from $., an increase of .% on an annualized basis. Our FFO payout ratio will remain conservative in the mid s % range, among the lowest in our peer group.

Before I turn it over to Conor I want to thank Dave Henry for all his support and mentorship and advice over the past decade and a half. Dave has fostered a terrific culture at Kimco with an approach of treating everyone with the utmost respect. Dave keeps a saying on his desk which describes him perfectly. It says it is nice to be important, but it is more important to be nice. Dave is a terrific leader and a truly nice guy. We will miss him.

Conor Flynn: Thanks, Glenn, and good morning, everyone. Today I'll start by recapping progress on our key metrics, followed by an update on acquisitions and dispositions, and finish with an overview of our strategic development and redevelopment pipeline. Overall the fundamentals of the open air shopping center business remain healthy due to the supply and demand balance. While the bankruptcy filings of Anna's Linens, Hagens, and A&P will add to the supply side, the demand for quality real estate continues to far outweigh this factor, as evidence by the amount of bidders during these bankruptcy proceedings. Four of our nine A&Ps were recaptured by Kimco, and the remaining five were purchased by Acme. These bankruptcies will create near-term headwinds to occupancy and same-site NOI, but given our strategy on focusing on great real estate with below market rents our shareholders will achieve long-term value as we mark-to-market these leases and continue to redevelop our assets.

Turning to our major metrics, basis points to .% due to negative net absorption and the disposition of stabilized shopping centers. Small shop occupancy remained flat, up basis points from prior year. Anchor occupancy dipped basis points over last quarter to .%. The Anna's Linens boxes recaptured this quarter provide an extended runway to allow our team to unlock value and take advantage of the upside due to the % to % mark-to-market opportunities embedded in these low average rent lease bases. Our

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combined leasing spreads continue the trend over %, a strong indicator that pricing power is intact in our key markets. Same site NOI of .% in the US was driven primarily by minimum rent increases, higher than expected percentage rent, but muted by higher than expected credit loss due to the bankruptcies mentioned earlier.

The majority of retailers in our sector have significant new store opening plans and multiple size prototypes. A few examples of new innovative off price concepts include Find at Lord and Taylor, and Lemon Pop by Charlotte Russe. These retailers are adding to the already crowded field looking for high-quality space and driving up rents. In addition we have welcomed new tenants this quarter such as Sephora. That will add a vibrant retail mix in our open air shopping centers. Small shop leasing shows signs of acceleration as we have seen the mom and pop retailer return, accounting for nearly half of the small shop leases this quarter.

We continue to execute on our transformation and simplification with the previously announced closing of the % entries in Montgomery Square in Fort Worth, as well as the acquisition of our partner's interest in Conroe Marketplace located in the Houston MSA subsequent to quarter end. Both of these transactions result in further consolidation of our joint venture properties and give us buying opportunities in key strategic markets in a challenging acquisition environment. We also acquired three parcels adjacent to our top assets as we look to expand our footprint where we see future redevelopment opportunity. The acquisition market remains competitive for high quality core assets. While we search for value add opportunities, we continue to be selective. The disposition market remains healthy but showing signs of stabilizing with buyers still on the hunt for yield.

In the third quarter we sold triple net assets and shopping centers, totaling . million square feet, generating $ million in Kimco share proceeds at a blended cap rate of .%. Buyers of these assets are taking advantage of the readily available financing of up to % loan to value, with floating interest rates at all time lows, which generates significant cash-on-cash returns. Buyers this quarter include public and private institutions, including REITS, and local private buyers. Currently in the US we have assets under contract for $ million, accepted offers totaling $ million, and another assets in the market that will complete our transformation by year end and produce another $ million of gross proceeds.

Steady progress continues to be made on our redevelopment and development pipelines. This quarter we completed $. million of redevelopments with blended incremental ROI of .%. Redevelopment activity added basis points to same site NOI this quarter. A new lease with Safeway and Pacifica California was executed in the third quarter moving that grocery redevelopment in the Bay Area up to the active category. Currently the redevelopment pipeline has a gross value of just over $. billion with a total of $ million in active redevelopment, with another $ million in designer entitlement and $ million that is under review. In addition to our four developmental projects, due to robust retailer demand at our Grand Parkway project, this quarter we purchases the adjacent -acre land parcel to accommodate a phase .

In closing, year-over-year average base rent per square foot is up .% and we continue to push toward unlocking more of the embedded value in our portfolio. In the third quarter Kimco was inducted in to the Dow Jones Sustainability Index. We are proud to be the only retail REIT in the index and it highlights our ongoing commitment to become a leader in corporate responsibility and sustainability as we evolve in to the next generation REIT. Finally, I'd like to express how grateful and appreciative I am have to have had the opportunity to work with Dave for close to years. He's been a mentor, a sounding board, a guide post, and a dear friend that I truly value. Thanks to Dave and his leadership Kimco is well position today continue to deliver for our shareholders, and become the leader in our industry. I'll turn it over to Milton for his final comments.

Milton Cooper: Thank you, Conor. During my lifetime I've seen many cycles and I've always felt that you had to prepare for the downturns. So at this point I've examined our portfolio in light of a possible future

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downturn, and I feel confident that on a relative basis we're in the sweet spot of retail real estate ownership. Retail real estate is defensive and with any downturn, but with great opportunity during the up cycles. In tough times all price retailers should do well. Our portfolio contains many off price retailers including TJX, Ross Stores, Burlington Coat, and Nordstrom Rack in over locations. There is a food component in the .% of our centers. We are the largest owner of Costco and Home Depot sites with Costcos and Home Depots. Credits that are very strong. Our top five tenants are TJX, Home Depot, Bed, Bath, and Beyond, Royal Aho, and Walmart. Most of our tenants sell low cost, everyday essential items. No retailer will be immune from a downturn, but I think we are well positioned. And we have an experienced, energetic executive team that is passionate about our business and focused on creating and managing value in our portfolio. So I face the future with confidence.

I too would like to mention a few words about Dave. Dave has been my partner for the past years. He has a wonderful way about him. He is sensitive, a great people person, and has always had a sense of doing the right thing. You would never ever hear Dave say-- well, that's business. We will miss him. We wish him well, and we are so pleased that we will have Dave available to us to share his sagacity with us. All the best, Dave. And as a final comment, and to echo Dave Bujnicki, all of us at Kimco would very much love to see all of you at our Investor Day on December . With that, we are delighted to answer any questions you may have.

David Bujnicki: We are ready to move to the question-and-answer portion of the call. Due to the large volume of participants in the queue we request a one-question limit with an appropriate followup. This will provide all our callers an opportunity to speak with management. If you have additional questions you're welcome to re-join the queue. You may take the first caller.

QUESTIONS & ANSWERS

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Operator: Thank you. We'll now perform the question-and-answer session.

Our first question comes from Christine McElroy, CitiBank.

Christine McElroy: Good morning, guys. First I wanted to say, Dave, your insights will certainly be missed on these calls. Congratulations.

David Henry: Thank you.

Christine McElroy: Following up on the exit from Canada, you have the RioCan transaction done. You have the additional under contract. What's your best estimated range of the level of proceeds on the remaining Canadian assets that you expect to monetize in ? And can you maybe walk us through your expectations for the tax impact, what the cap rates look like, both pre and post tax, and expectations around reinvestment of proceeds as we head in to next year? I know it's a lot but just trying to get a sense for all the moving parts.

David Henry: Let me give you a high level, then I think Ross Cooper, who has worked with me and Kelly Smith who runs our Canadian operations, the three of us have been knee deep in our exit from Canada and we have had some excellent progress. I think as we reported, we've got in addition to the we've already closed, we've got another four that we will sell to RioCan by the end of the year. And then there's others that will be sold either to third parties or to other joint venture operating partners, the biggest one being Anthem properties. We have more than properties with Anthem, and those properties will all be sold during next year and the total proceeds will be under CAD million. I think we're going to average about a cap rate before tax. And tax, I think we're still working on various tax strategies so Glenn can probably comment better on giving you a rough guess on the tax effect, but we are managing this as best

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we can to avoid any kind of special dividend. We do have large embedded gains thanks to the timing of our entry in Canada, and the hard work our operating partners have done up there. The market remains very strong for A Properties in Canada, with cap rate in the for the As. Secondary assets or secondary locations, the cap rates have widened a bit I'd say to the higher part of s, but the average I think if you wanted a rough average for us, a would be a good number. With that, Ross, do you have any other color?

Ross Cooper: Sure, hi Christine. Dave pretty much mentioned the high level, but essentially what we have currently either under contract or under negotiation on a gross basis is about $. billion, so the Kimco proceeds share of that is about $ million before debt. With that we'll be pretty much done with about % of the total NOI contribution from Canada with those transactions that were announced. We'll have about % left which is plus or minus $, $ million of proceeds thereafter.

Glenn Cohen: It's Glenn. You asked about the tax implications. We've dealt with most of the tax implications for this year. That's why we've kind of staged where we are with what we've sold into RioCan. The taxes are roughly around .% of the gain. So that gets paid off in Canada. We get that as a deduction in the US against our own REIT income, so we feel pretty comfortable with where we are. It won't be certainly an issue for 's dividend. There's no requirement for a special dividend or special distribution and we feel comfortable as we start to look into ' that we can deal with those gains as well. We've done a lot to accelerate, tax depreciation, we've done what's called cost segregation studies to bifurcate the way the assets are and the timing of when you depreciate those assets. Overall when you put it all together we feel pretty comfortable that there's no requirement for special distribution.

David Bujnicki: Christi, it's Dave Bujnicki. I just want to comment also on what Ross mentioned. When he talked about the % of the NOI, that's the plus those assets that we sold in October, so collectively in total that's what represents % of our Canadian NOI.

Christine McElroy: Great. Perfect. Thank you.

Operator: Next question comes from Ross Nussbaum, UBS.

Ross Nussbaum: Hey, good morning. Jeremy here. Just to be clear after the next billion or so of sales either on the contract or accepted offers, there's only another $ million of sales left at this point that you'd consider non-core, is that right?

Glenn Cohen: In Canada, yes.

Ross Nussbaum: What about I guess the US and after this $ million?

Glenn Cohen: The US for the rest of this year for Q we have about $ million left to sell which is either under contract or accepted offers where due diligence has already begun. Thereafter starting in early and beyond our disposition program really turns in to more of an asset management function, and pruning just the bottom percentage of the portfolio on an ongoing basis. So you may see plus or minus million per year of disPOs but that's ongoing management, not any need to sell or additional transformation that needs to be done.

Ross Nussbaum: Okay. Then just one question here for Conor. In your opening remarks, you mentioned dispositions, the disposition market was healthy but stabilizing. I'm just wondering if you could give a little more color around that statement. By stabilizing do you mean it's not as heated as maybe it once was earlier this year, even last year?

Conor Flynn: I think you interpreted that correctly. I think that we've seen that there's plenty of buyers still out there looking for high quality real estate and chasing yield, but the amount of bidders seems to have tapered off a little bit. But there's still very high quality bidders in that pool as well. So, we haven't

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seen any changes in terms of pricing. You saw the cap rate on our dispositions is in the sixes now and it continues to be going further down, so we think that it's stabilizing just because maybe there's less froth in the market to chase after these assets.

Ross Nussbaum: Thank you.

Operator: The next question comes from Lina Rudashevski, JPMorgan.

Lina Rudashevski: Thank you. Just on the Anna's Linens, can you talk about the downtime expected in getting those released and you said they were under market. What rent per square foot on average were you getting on that?

Conor Flynn: Sure, I'll take that one. Our average base rent on the Anna's Linens is $.. We project that to be anywhere from % to % below market. Of the , we have active deals and negotiation with tenants such as Buffalo Wild Wings, Forever , Old Navy, Chipotle, Guitar Center. We think there's a pretty positive impact we can capture in the near terms between to months that we'll be able to reposition the majority of these boxes. We have plenty of opportunity to capture the upsize and mark-to-market those rents.

Lina Rudashevski: Thank you.

Operator: The next question comes from Ki Bin Kim, SunTrust.

Ki Bin Kim: Thank you. Just to follow up on the last question, did that Anna's Linens box store closures impact your small shop or is that above , square feet?

Conor Flynn: It did have a basis point small shop impact this quarter. So if you look at that impact in addition to the sales of the stabilized dispositions, our small shop occupancy would be up quite a bit versus flat. That's why I mentioned we see the small shop health recovering nicely.

Ki Bin Kim: I guess that's kind of hard to gather from the press releases but thanks for that color. Could you maybe comment on, what do you think the pace will look like as we head in to given how full your anchor boxes are?

Conor Flynn: We still have our target of % of small shops which we think is achievable especially once the disposition program winds down. Many of the assets we're selling today are either % occupied or near that mark, so if you take that out of the shuffling of the portfolio we think % is achievable by the end of next year and we see the volume in terms of the pending deal is significant and continues to improve.

Ki Bin Kim: Okay, thank you.

Operator: The next question comes from Ryan Peterson, Sandler O'Neil.

Ryan Peterson: Thank you. Just a question on the A&P leases. Can you give us an idea of the magnitude of the mark to market there and were all of those considered to be below market or is it just in total that they average out to be below market?

Conor Flynn: Sure. Let me walk you through that. Of our nine A&P leases, four of them were bought by Acme. One of them was bought by Best Yet. The four that were recaptured, one we purchased in the auction because we wanted to control that real estate. In Staten Island we think there's significant opportunity. We redeveloped % of the asset with a brand new Target that's on a ground lease. So the last piece of this will be that path mark box that we can reposition there and there's significant up side in that rent. Just to give you an idea, the current rent is $.. The second box in Staten Island that we're recapturing is in Highland Boulevard. We thinks this is going to be a redevelopment. We're going to be adding close to , square feet. And that rent is significantly below market as well. The other two, Home

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Dale New Jersey. We think there's up side there. There's plenty of Operator: s that are looking to recapture those boxes. So in those four that we're recapturing we think there's a blend at % to % below market opportunity.

Ryan Peterson: Great. Thank you.

Operator: Our next question comes from Craig Schmidt, Bank of America.

Craig Schmidt:

Thank you. First Dave Henry, I wanted to thank you for your views and observations over the years. You'll be missed.

David Henry: Thank you very much.

Craig Schmidt: My question returns back to the AMP. Is it possible these spaces could be broken up and achieve higher rents or do you need to keep the boxes whole? I'm assuming it doesn't necessarily have to be reuse of a grocer.

Conor Flynn: You're right on there. Most of the box es we see as potential splits or redevelopments, there are plenty of Operator: s that are bidding on this basis to keep it at one box so we're going to continue to look at the highest invest use and best returns on the repositioning. There's plenty of opportunity here to go with a grocery component or a non-grocery component. There's tremendous expansions for off price retailers today. Especially some of the newer concepts that are very aggressive in the Northeast and trying to gain market share so we're in a great spot here to really wait and see what's the highest and best use for the asset and look at the economics of either repositioning it by splitting it with a grocer or without a grocer.

Craig Schmidt: And the one that you acquired, what's the relationship with the other three then going forward?

Conor Flynn: The one that we acquired, we wanted to control that real estate. We have retailers that are bidding on the asset right now. We wanted to actually be in the position to be able to pick the retailer and the highest and best use there. That's the one in Staten Island that I mentioned earlier. The other three had very limited term on them. So there weren't many bidders looking to recapture those boxes. Even though the real estate is of high quality, retailers weren't bidding on it because of the relative term left on those leases with out any options. We felt we were in a good position to recapture without bidding in the auction process.

Craig Schmidt: Thank you, that's helpful.

Operator: The next question comes from Paul Morgan, Canaccord.

Paul Morgan: Hi, good morning. Just like to echo everybody's sentiments. Dave, best of luck. It's been a pleasure working with you over the years. And just in terms of Canada and the net proceeds, how should we think about your ability to reinvest in net proceeds, well, both Canada and other remaining dispositions over the course of a year. You've had a lot of success rolling cash back in to acquisitions with your partners, consolidating those. Is that still a big opportunity or how should we think about your ability to kind of match use the proceeds?

Conor Flynn: That's a good question, I think we have still a tremendous opportunity to reinvest those proceeds first in redevelopment. We're seeing tremendous returns and our assets that we put those redevelopment projects in place. They may have some near-term drag on our same-site NOI but we think the long-term NAV appreciation there is significant and still the best use of our capital. There will still be

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an opportunity I think to buy some of our JV partners' interest out in the years ahead but it probably won't be on the same scale as it was this year with Blackstone. We'll also then look to look at reducing debt levels further. I think our balance sheet is very strong but we can always make it stronger. We're in a nice position to be able to look at the highest and best use of our capital going forward.

Paul Morgan: Is that potential cash -- unrealized gain from Albertson's kind of complicate the way you look at the amount of cash you'll have as you look over the next year or two?

Conor Flynn: The nice thing about the Albertson's investment is that we'll have a marketable security that we'll be able to control when we want to sell. They're a great strategic partnership.

David Bujnicki: Honestly the Albertson's transaction for us is truly what we talked about. It's the plus. It's going to provide a lot of capital for an investment that from an FFO standpoint doesn't produce anything. It's got a lot of value, a lot of NAV but from an earnings standpoint, it doesn't produce anything because we sit on the cost method with it so it's just plus and will provide us capital to put in to redevelopments, pay down debt, and help generate further recurring flows.

Paul Morgan: Clearly it's a good problem to have. Thank you very much.

Conor Flynn: We agree.

(Laughter)

David Bujnicki: It's a good problem to have and we agree.

Conor Flynn: The next question?

Operator: Next question comes from Jim Sullivan, Cowen.

Jim Sullivan: Thank you. Dave, let me just offer my congratulations as well. You've been great to work with and we'll miss you in your role with Kimco although with your expanded directorship roles I expect we'll be seeing you.

David Henry: Thank you, Jim.

Jim Sullivan: I've got a question for Conor really on the redevelopment pipeline. You've talked for a while now about having a backlog or shadow pipeline of a billion plus. Would you have an active redevelopment about a quarter of a billion. I'm just curious as you think about this going forward, it's been a point of emphasis that you want to expand this. I'm just curious if there's a number in terms of an amount or percentage of the market cap that you're going to kind of consciously limit yourself to in terms of having it under active redevelopment.

Conor Flynn: It's a good question. I don't think we have a target percentage of market cap we're looking to achieve. It's an opportunistic play for us. We continue to try to mine the portfolio. From redevelopment opportunities. We're just getting start would identifying a billion in redevelopment opportunities. You see with the recent bankruptcies, some of these projects we didn't have in our redevelopment pipeline. As retail shifts and as the portfolio changes, we look to acquire assets. We look at our existing assets where we can acquire parcels to add projects. We really want this to be a cornerstone of our strategy. It continues to grow and we think there's more opportunity embedded in our portfolio.

Glenn Cohen: Jim, also for us, you know, the redevelopment pipeline is really one of the best uses of capital we have. The returns, you know,far exceed what the acquisition market has to offer today and we like to put on as many as we can. It's really the mining process and the timing to get whatever permits you need, lighting for tenants. It's a long long process, so building the pipeline that Conor and the team

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has is great. And, we're going to just keep adding to it as we go because things cycle off; we build them, we get them up and going, we keep trying to mine more and more of it. It's a great use of our capital.

Jim Sullivan: Kind of a related follow up to that, we have seen over the course of the last couple of quarters that a number of department stores are introducing their own off-price concepts this year. We've seen it with Macy's, Bloomingdale's, more recently Kohl's and Lord And Taylor. I wonder if you can share with us how aggressive you expect, how aggressive you think these retailers will be in terms of expanding this in a portfolio like yours.

Conor Flynn: If you look at the department store model, it's completely changed. The off price concept has been a vehicle for growth. So a perfect example is Nordstrom. Nordstrom is one where the department store is still doing quite well but the vehicle for growth has always been the Nordstrom Rack and they continue to try to add store count and up their expansion plans. I think Macy's and others are actually taking a page out of their playbook. That's where you see the ramp up of expansion. Macy's is trying to add more stores and believes their off price concept is their vehicle for growth. I think this trend will continue. We've seen the tremendous success of TJX and Ross. They see today's shopper is really focused on trying to find that deal, trying to take advantage of that treasure hunt and they've done a good job in terms of merchandising their stores and we think it's a great plus for our business because they continue to add to the demand.

Jim Sullivan: OK. Thank you.

Operator: The next question KNHZ from George Auerbach, Credit Suisse.

George Auerbach: Great. Thank you.

Glenn, just to clarify, the net tax impacts from the Canada sales is only .% of the game but that's largely a wash because of the credits you estimate tax income? Just trying to think about it any tax leaks from the Canada sales.

Glenn Cohen: It's not really awash because we get a deduction, not a credit, the way it works on our own read. So you do have the, the deduction we're getting as it relates to our US REIT comes in to play relative to our dividends paid reduction but the cash you actually have that goes out in Canada is the .% of the gain.

George Auerbach: Got it. Thank you.

Operator: The next question comes from Chris Lucas, Capital One Securities.

Chris Lucas: Good morning everyone.

Just a quick follow up on the small shop leasing, accelerating comment; I guess what I'm wondering is if maybe you could give some color on where you guys sit with spaces that are under a year vacant versus those that have been vacant for a while, and trying to understand where you sit with that. Also, where you're seeing the mom and pop tenants going in terms of the space breakout between those recently vacated versus the longer vacated space?

Conor Flynn: Sure. The small shop acceleration I think is just continued over the past few quarters. You're continuing to see many of the services as well as the restaurants expand rapidly. Quick service restaurants have been one of the fastest growing components of our small shops. You're also seeing it in some of the dollar stores. Five Below, there's still plenty of opportunity there in addition to Old Navy and others. But we've seen that really the boost is coming from the services and that's great for us because those tenants are stickier. You're also seeing some impact from the medical players.

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The urgent care centers, the dentists, the optometrists. All those continue to expand. And your question about the small shop velocity, one year vacant versus less than one year vacant, it really is because we've sold so much of our portfolio, the spaces that have been vacant a long period of time are typically in those sites that we've sold so the ones that have been vacant for a significant amount of time, we see just as much activity on the ones that have just recently become vacant because our centers are now much higher quality and dense areas where there's a lot of demand and not quite as much shop space available. So we're confident that we can deliver in terms of our small shop occupancy gains and points about % by the end of next year.

Chris Lucas:

Thank you.

Operator:

Our next question comes from Richard Moore, RBC Capital Markets.

Richard Moore:

Hi. Good morning, guys. First Dave, I want to congratulate you on a great run at Kimco and of course good luck in whatever your next adventure is.

Conor, my question for you is with the recent issues that some of the tenants have been having across the retail space, how do you feel about your long-term goal of % plus for same-store NOI growth as we go forward?

Conor Flynn: The % plus target is one we feel confident we can achieve mainly because of our strategy of buying great real estate with great market rents. This is really how Kimco is built. We think embedded value in our portfolio is significant in the market opportunities and potential opportunities we have. Either identify or ones we're working on identifying. We still feel the opportunity is there for us to harvest that embedded growth and showcase that we can produce the %. The portfolio is a lot different today than it was just even a few years ago. If you look at our concentration across the country, we're really focused on the top growing markets that have diverse economies, high educated, high affluence and really a tremendous opportunity for us to continue to improve the tenants, improve the credit of the retailers, as well as the rent. So we think we're in a perfect spot to take advantage of this opportunity where the open air shopping center has really become the most in demand in terms of the retailer spectrum.

Richard Moore: Okay. So no loss of confidence from the recent kind of softness in the retailer market.

Conor Flynn: It's really, the softness I think circled around a few tenants we've been watching for many, many years, and we think that the watch list we have continues to be one of the shortest we've ever had in our history so with the new retailer concepts coming out as well as the opportunity for us to reposition some of these assets, we still feel confident.

Richard Moore: Great. Thanks.

Operator: The next question comes from Haendel St. Juste, Morgan Stanley.

Haendel St. Juste: Hey. Good morning. And also a congratulations to you, David. You'll be missed. My question is on Walmart. A top five tenant of yours. We've heard incrementally negative news from them recently as they grapple with competition both on the ground and from the internet, slowing the pace of openings of some of their smaller and their larger stores while continuing to close their medium size stores. Curious what you're hearing and seeing from them and potential implications for your portfolio.

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Conor Flynn: Walmart is clearly still a dominant force from the retail world today. Their neighborhood market stores have been positively. Their supercenter is still a dominant force that they're looking to expand. We were sitting down with them recently and when we went through our portfolio, they were cautiously optimistic that we could do a lot more together in the future in terms of redevelopment or development. So it's a tenant that is clearly going through some growing pains. They're looking to see where their growth is coming from and they have a number of different formats now as well as trying out some new opportunities where they're going to be putting some delivery kiosks in department FEELGD. They have a number of different sized prototypes to help them penetrate markets that might have kept out the super center before. Plus their credit is still Double-A. Tough to argue with Double-A credit. We still feel confident that they're a player for the long haul. They've been putting a lot of money in to the omni channel. Clearly they've been going up against Amazon. And I think hopefully this holiday season is a positive one for them.

David Henry: They mentioned in their Investor Day that revenues are going to keep expanding where their NOI is going to be hurt in the short-term, they're going to have to on the payroll side, they've agreed they're trying to pay their employees a little bit better. But they see themselves in three or four years getting back to the same NOI growth that it had previously and they're a big battle ship. It's hard to turn. They're really working hard to do the right thing and be proactive. They're big. A lot of these other retailers will do nothing and they're in bankruptcy in five years because they haven't done it. They're trying to be proactive to see what the customer wants. They're will ing to take a little short-term pain to get there.

Haendel St. Juste: Appreciate those thoughts and maybe thought the most appropriate follow up but curious if you share thoughts on leasing spread. It's bounced around the last couple quarters but generally been in the low digits. Curious how we should think about that the next few quarters.

Conor Flynn: Yes, we think those leasing spreads are achievable going forward. Clearly it will depend. Leasing spreads can be tricky because depending on the amount of population in there one deal can throw it off. But we feel confident if you look forward a few quarters, we don't see the supply and demand changing in our sector. We see there's plenty of opportunity for us to continue on that path.

Glenn Cohen: Even on the renewal side and option side, you're seeing mid single digit running like in the % range on just AUPGD. So it's pretty possible.

Haendel St. Juste: Thank you.

Operator: Our next question comes from Linda Tsai, Barclays.

Linda Tsai: Hi. When you look at your watch list of retailers that have potential to, do you think it will be higher or lower than this year? It seems like you have a good handle on topic. Assuming your same-site NOI guidance is unchanged in q, you're looking for reasonable that would still get you to the midpoint of guidance.

Glenn Cohen: We run pretty reasonable credit loss reserves when doing our budgeting process. The credit loss mack you saw in this quarter is specifically tied to a tenant that filed for bankruptcy that we have cam bills that haven't been paid but our overall reserves covered most of that. As we look in to , as Conor mentioned, the watch list is relatively short. We don't see mass amounts of bankruptcies happening. If they did, it would definitely impact us like it would impact everybody else but we feel pretty confident about the reserve levels we have today.

Linda Tsai: Thanks.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over

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to David Bujnicki for any closing remarks.

David Bujnicki: Thank to everybody that participated on our call today. As a reminder additional information for the company can be found in our supplemental as posted on our website and we look forward to seeing you all at our Investor Day in December. Enjoy the rest of your day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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