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KIM - Q2 2014 Kimco Realty Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Kimco Realty Corp second-quarter 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 that this event is being recorded. I would now like to turn the conference over to David Bujnicki, Vice President of Investor Relations and Communications. Go ahead, sir.

David Bujnicki - *Kimco Realty Corporation - VP of IR & Communication*

Thank you all for joining Kimco's second-quarter 2014 earnings call. With me on the call this morning are Milton Cooper, our Executive Chairman; Dave Henry, President and Chief Executive Officer; Glenn Cohen, Chief Financial Officer; Conor Flynn, Chief Operating Officer; as well as other key executives who will be available to address questions at the conclusion of our prepared remarks.

As a 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 that could cause actual results to differ materially from those forward-looking statements.

During this presentation, management may make reference to certain non-GAAP financial measures that we believe help investors better understand Kimco's operating results. Examples include, but are not limited to, funds from operations and net operating income. Reconciliation of these non-GAAP financial measures are available on our website.

Finally, during the Q&A portion of the call, we request that you respect the limit of one question so that all of our callers have an opportunity to speak with management. If you have additional questions, you are welcome to rejoin the queue.

With that, I turn the call over to Dave Henry.

David Henry - *Kimco Realty Corporation - President & CEO*

Good morning, and thank you very much for calling in this morning. We are very pleased to report strong second-quarter results. Glenn and Conor will provide specific details, but our operating metrics continue to be excellent, led by significant increases in portfolio occupancy, including small shop space, and our 16th straight quarter of solid leasing spreads for both new leases and renewals.

With respect to the retail industry overall, the fundamentals remain strong, with effective rents and occupancy improving across the board. National retailers continue to expand in the face of population growth, positive GDP, and limited new retail supply. The annual ICSC shopping center convention in Las Vegas in may was upbeat, with attendance and the number of exhibitors increasing over prior years.

Given the increase in market rents, we are beginning to see the first signs of new development activity, although by no means near the size and scope of the large speculative projects built prior to 2009. In general, national retailers have found effective online strategies to complement their physical store presence, and the top three retailers in online sales growth all have physical stores: Macy's, Walmart, and Apple.

Overall, it is encouraging to note that retail sales per person have increased by 16% from the prior peak in 2008. Consumer confidence now is at the highest level since October 2007, and retailers in general are very optimistic about the back-to-school shopping season.

Looking at the neighborhood and community shopping center sector itself, the industry is strong and healthy, and we believe most of our retail tenants fall in the Internet-resistant category, as they generally focus on necessity-based goods and services. Services alone account for two-thirds of consumer spending and are growing. Restaurants, dry cleaners, health club, urgent care center, nail salons are all examples of products and services that are very difficult to obtain in an e-commerce world.

In terms of our strategy, we continue to be focused on what we call TSR-plus. T for transformation in terms of upgrading our portfolio; S for simplification, as we exit Latin America and reduce the number of our joint ventures; and R for redevelopment, where our pipeline of active redevelopment projects is approaching $1 billion with excellent projected returns. And finally, we have our plus business, which very selectively invests in retailers who own much of their real estate. This has been a small but opportunistic and very profitable part of our Company for many years and provides synergies, knowledge, and experience dealing with retailers of all types.

As outlined in our earnings release, we have made notable progress across the board acquiring full ownership of many portfolios of high quality retail assets, by purchasing the interest of our institutional partners in existing joint ventures. Most recently, SEB, KIF, and LaSalle, with BIG scheduled to close soon.

Overall, since the bottom of the recession in 2009, Kimco has purchased full equity ownership in 88 properties, totaling $2.3 billion in gross value from existing joint-venture partners. Many of these acquisitions were completed at very favorable cap rates due to timing and the cost savings involved in loan assumptions, transfer taxes, and the lack of third-party brokers being involved.

Supplementing these acquisitions of existing Kimco managed assets, we have also selectively acquired excellent retail properties from third parties in strong long-term markets such as Boston, Charlotte, and Raleigh, combined with the aggressive sales of secondary retail assets in our US portfolio. Now, 180 sites comprising approximately 18 million square feet since late 2010.

Our portfolio has been transformed, with much improved demographics, higher average rents, and increased portfolio occupancy. These actions, taken together, have created a significantly superior national portfolio of excellent retail properties with robust projected NOI growth and significant redevelopment opportunities.

For those interested in the status of Kimco's participation in the previously announced pending merger of Albertson's and Safeway, the transaction remains under FTC review. But our partnership is cautiously optimistic of closing the merger by year end. The Safeway shareholders voted overwhelmingly to approve the transaction on July 25.

With respect to Latin America, we closed another portfolio sale of four retail properties in the second quarter, and the announced sale of the Fibra shop of three more retail properties should close shortly. In addition, we have a signed letter of intent for nine additional Mexico shopping centers, which will leave us with only one large shopping center in Mexico not currently under contract or letter of intent. Although, we do have a number of interested parties reviewing this asset.

As a result, we continue to be on track to sell essentially all of our Latin American properties by year end. Fortunately, the market for Mexican REITs, known as Fibras, continues to be strong, with substantial demand for additional income properties of all types.

Looking quickly at Canada, our Canadian portfolio remains a strong and solid contributor to our earnings, notwithstanding the recent softness of the Canadian dollar. Our Canadian properties remain well occupied, at 95.9%, with leasing spreads of 10.4%, and same-site NOI growth of 3.6% before currency. There are also several significant redevelopment opportunities in the Canadian portfolio.

And now, Glenn will outline our specific financial results for the quarter, to be followed by Conor's discussion of our portfolio results, and then Milton, as usual, will provide some high-level observations.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Thanks, Dave, and good morning. Let me provide some detail on the results reported last night. As a reminder, we use the term FFO as adjusted to represent recurring FFO, which excludes transactional income and expense and non-operating impairments. Headline FFO represents the official NAREIT definition.

FFO, as adjusted per share, was $0.35 for the second quarter, up from $0.34 last quarter and $0.35 a year ago. For the six months ended, FFO as adjusted per share was $0.69, as compared to $0.67 last year, a 3% increase.

The key drivers of our second-quarter FFO as adjusted performance were attributable to increased US shopping center NOI of approximately $19 million, from higher occupancy levels and increased rental rates, coupled with contributions from the significant acquisition activity completed.

We also benefited from lower interest expense of $2.2 million, as a result of the reduced borrowing costs on our recent debt issuances. These increases were reduced by the sales of the InTown Suites investment and the American Industries portfolios last year, which contributed $11 million of FFO to the second quarter last year. In addition, NOI was reduced by $8.5 million, from the sales of the assets in Mexico and Latin America.

Headline FFO per share for the second quarter was $0.34, which includes $2 million of transactional income, associated with the gains on land sales, and [promotes] earned on the disposition of preferred equity interest. Headline FFO also includes $4 million of transactional expenses related to acquisition costs, and severance related to the wind-down of our Latin America operations.

The property operations team delivered strong operating results this quarter. US occupancy reached 95%, up 30 basis points from last quarter, and up 110 basis points from a year ago. This is the highest occupancy level in 5-and-a-half years, and we believe we have room to improve it further.

Combined occupancy now stands at 94.8%, up 30 basis points from last quarter, and up 110 basis points from a year ago. Combined same-site NOI growth was 2.8% before the negative impact of currency of 80 basis points.

Same-site NOI growth for the US was 2.5%, in line with our internal forecast. We expect stronger same-site NOI growth levels for the third and fourth quarters, based on the strong leasing and occupancy gains over the past year. We are maintaining our full-year guidance of same-site NOI growth in the range of 2.5% to 3.5%.

We continue to acquire high-quality properties in denser, higher income markets from third parties and our joint-venture partners. Year to date, we have acquired 26 new properties, for a gross price of $393 million, and the remaining interest in 25 properties from our joint venture partners, valued at $777 million, including the recently closed SEB portfolio.

We further our recycling program efforts at the disposition of 15 US non-strategic properties for a gross sales price of $186 million during the quarter. We recognized non-FFO gains totaling $107.8 million during the quarter, from property sales and the KIF portfolio transaction.

In addition, as a result of our accelerated and shortened expected hold period, we reviewed book values of over 170 properties, and took non-FFO impairments of $85.7 million on those assets where we believe the fair market value is less than the book value. Please keep in mind there are substantial non-FFO gains that will be realized upon the sale of the assets which were not written down.

We are in the final phase of our exit of Latin America, with under $400 million remaining after the completed sale Dave mentioned. We have a contract for the sale of three properties for $96 million, our share, which is expected to close shortly. In addition, we have an LOI for the sale of nine more properties in Mexico, for $167 million, and in negotiations to sell our last asset in Chile.

As we have previously disclosed, under US Generally Accepted Accounting Principles, not until a company substantially liquidates its investment in a foreign country can the impact of foreign-currency translation gains or losses be recognized in earnings. As of June 30, the unrealized loss due to currency associated with our Mexico and South American assets was $117 million. The final impact of currency will apply to the respective gains and losses on the sales of these operating properties, and will not affect FFO at the time it is recognized.

Our acquisition target range for the year is $1.1 billion to $1.2 billion, which has been substantially completed, and our disposition target range, including Mexico and South America sales, is $1.1 billion to $1.3 billion.

We continue to keep our balance sheet metrics and liquidity position in excellent shape. Early in the second quarter, we issued a $500-million, seven-year bond at a coupon of 3.2%, using the proceeds to repay higher coupon maturing mortgage debt and unsecured bonds.

We ended the quarter with net debt to recurring EBITDA of 5.8 times, in our target range of 5.5 to 6 times, and fixed charge coverage of 3 times. Also, we have over $1.4 billion of immediate liquidity available to us through cash on hand and our revolving credit facility.

With respect to guidance, we are reaffirming our 2014 guidance range of FFO as adjusted per share of $1.36 to $1.40, with a bias toward the midpoint of $1.38. The guidance range includes the dilutive impact from the acceleration of dispositions and the exit from Latin America, as well as the positive impact from the significant acquisition activity and refinancing savings.

With that, I will turn it over to Conor.

Conor Flynn - *Kimco Realty Corporation - COO*

Thanks, Glenn. Today, I will update our progress on acquisitions and dispositions, and then cover the progress on our redevelopments. Finally, I will recap the leasing and operations activity for the quarter.

As outlined in our press release, we had a very active second quarter, acquiring a large portfolio in Boston, and buying out our partners from the Kimco Income Fund. After the quarter end, we also bought our partner's SEB's interest in 10 properties.

Since the beginning of the second quarter, we have acquired 46 properties, with a gross value in excess of $950 million, primarily in our key territories. The quality and demographics of these assets are excellent, and the blended cap rate is 6.2%.

While we were active in the open market, we are proceeding with caution, due to historic low cap rates, and continue to search for acquisitions with redevelopment opportunities that will allow our skilled associates the opportunity to unlock value for our shareholders. Recent transactions on high quality assets reflect aggressive pricing, making our redevelopment pipeline an even more attractive use of our capital right now.

Turning to dispositions, during the second quarter, Kimco sold ownership interest in 15 US properties, seven wholly owned and eight held in joint ventures, totaling 1.7 million square feet, for a gross sales price of $185.6 million, including $23.3 million of mortgage debt. The implied cap rate for these assets is a blended 7.4%, and the Company's share of the proceeds from these sales is $121.5 million.

Cap rates continue to compress across all quality levels, as the first free yield has investors stepping out on the risk spectrum in search of places to put capital to work. I am pleased with the pace of our disposition so far this year, as we have sold 37 properties at a blended 7.8% cap rate, and are taking advantage of the ideal market conditions to exit our non-core assets.

In the first half of the year, we have been a net acquirer in the US, but we expect to be a net seller in the second half, by completing the sale of multiple portfolios and individual assets that are currently under contract. We currently have 44 properties in the US that are under contract, totaling approximately $325.8 million, at an implied cap rate of 8.5%. We have prioritized the dispositions of our low growth assets and our at-risk assets. An example of this during the quarter, includes flat, long-term, triple net leases, two with Winn-Dixie in Louisiana, and one with Costco at a center in Ogden, Utah, marking our exit from the state of Utah.

Another example is a center we recently sold in West Palm Beach, Florida, that has a K-Mart at above market rents in a location where the retail node has shifted dramatically. Bidders on these properties include public and private REITs, pension funds, high net worth individuals, international, and 1031 buyers. We are cautiously optimistic that our transformation to a tier-one portfolio will be substantially executed over the next year.

redevelopment projects enable us to optimize the operating performance of our core real estate holdings, and continue to generate accretive returns on our invested capital. The strength of our real estate holdings provide us with an incredible opportunity to unlock value, by understanding the highest and best use, and delivering a superior product to fit the needs of the local community. Our redevelopment projects include multiple improvements that will create an environment that engages and focuses on the customer experience, which is critical in today's world.

All of our redevelopment projects include a significant change to the footprint of the asset. Alongside adding density, redevelopments also include site upgrades that will reduce capital expenditures for many years to come. With the focus on sustainability and asset repositioning, we have improved site lighting, with LED upgrades and gateway controls, that have produced energy savings of 18%. We are now integrating mobile irrigation controls, mobile lighting controls, can wi-fi enabling our assets, to provide our shoppers a greener, safer, and omni-channel connected environment.

Specialty grocers continue to expand and perform above expectations, giving us the ability to add a grocery anchor to sites that have never before had all of the benefits of a grocery component. This blurring of lines across traditional grocery-anchored centers and power centers bodes well for our portfolio. The percent of our portfolio with a grocery component based on ABR is now 63.7%, up from 58.6% at the end of 2013.

Recent deals with Whole Foods, Sprouts, Fresh Thyme Farmers Market, and Lucky's, provide a luxury that we previously did not have in our power centers. The specialty grocer will help drive sales to our surrounding retailers and improve Kimco's net asset value, as more and more of our shopping centers become grocery anchored.

The retailer demand is significant for these opportunities, and a great example is where we have two redevelopments in Florida, Tri-City Plaza in Largo and Renaissance in Altamonte Springs, where the centers are close to 100% pre-leased with Whole Foods, LA Fitness, Sports Authority, Ross, and Petco, all before breaking ground. We are continuing to expand our redevelopment pipeline, and this quarter added over $100 million of new projects to the pipeline.

Currently, our pipeline totals $919 million, up from $792 million last quarter. We now have $314 million of active redevelopment projects. $344 million of projects under design and entitlement review, and $261 million in the evaluation phase. I am encouraged by the progress we have made to date, and believe there is more to come, as we comb the existing portfolio for opportunities, to recapture boxes that call for a higher and better use, and focus our acquisitions to require a redevelopment component.

Before diving into leasing metrics for the quarter, I would just like to say that the US same-site NOI growth of 2.5% did receive a nice pop of 40 basis points in redevelopments that we delivered this quarter. Thanks to our prolific deal makers, the leasing volume continues to show no signs of slowing down, as we've signed 183 new leases for a total of 916,000 gross square feet.

US occupancy rose 30 basis points to 95%, driven by a 29 basis point gain via positive net absorption and only 1 basis point gain due to dispositions. This is a great data point, showcasing the hard work done by our team to fill up our remaining vacancies.

Drilling down, anchor occupancy increased 20 basis points pro rata to 97.8%, compared to the prior quarter. And a few notable new leases this quarter include TJMaxx; Ross; Bed, Bath and Beyond; CVS, L.A. Fitness, (inaudible) and Sports Authority.

Small-shop occupancy increased 70 basis points pro rata to 86.3% compared to the prior quarter and is up 200 basis points pro rata compared to the same quarter last year. The small-shop leasing recovery continues to be led by a mix of service-based tenants and restaurants.

Multiple deals this quarter were executed with national small-shop operators, such as Chipotle and AT&T, in addition to regional players, including MOD Pizza and multiple deals with franchisees, such as Subway and Jersey Mike's. Of note, we also completed 91 deals with pure mom-and-pop retailers out of a total of 161 small-shop leases, a good indicator that local business is bouncing back, predominantly hair and nail salons and 10 new medical deals. Our average base rent for small shops on the entire portfolio now sits at $23.75 a foot, up $0.46 from the beginning of the year.

I would also like to welcome a new tenant to our portfolio this quarter, Expedia.com. An Expedia franchisee rented a small shop from us in North Carolina, where they plan to staff the space to help customers with their travel needs. We take this as a sign that if it helps their business, online vendors will continue to open brick-and-mortar locations.

Our new leasing spreads of 13.3% pro rata was driven by across-the-board, double-digit positive spreads on junior anchors, mid-sized shops, and small shops. The average base rents on new deals was $15.93 pro rata, which is 20% above our current average base rent. Renewals and options leasing spread posted a 8.2% pro-rata increase, and overall leasing spreads in the US increased 9.7%.

In closing, the asset base of Kimco has never been stronger, and our operations team is aligned and focused on showcasing what we do best. If you get a chance to visit a Kimco center, I hope you notice the difference.

We have received 10 city beautification awards this year, and our pride of ownership is evident. We intend to give our ever day shoppers the ultimate shopping experience, to keep them coming back time and time again.

With that, I will turn it over to Milton.

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

Thank you, Conor. From time to time over the years, I have trumpeted the fact that as compared to other real estate assets, one of the unique attributes of neighborhood community shopping centers is a very, very high ratio of land to total value. The typical shopping center is comprised of a one-story building and five times as much land as the square footage of the building's footprint.

The land component often exceeds the parking requirements, and thus, becomes an additional asset. In a growing economy, land is one of the best and least risky long-term investments. It is irreplaceable, indestructible, and a natural hedge against inflation.

And as the land increases in values, it allows the center's extra land to be set aside, or land banked, as I like to say, for additional investment opportunities. In the meantime, the revenue generated from the improvements covers the real estate taxes and other carrying costs (inaudible).

Today, the opportunities that land banking affords us can take many forms, including the expansion of existing centers, development of out parcels, sales to third parties, and possibly mixed-use development. As markets change and evolve, it is incumbent upon us to make sure that we are maximizing each asset's value, in order to maximize total shareholder return.

In addition to our redevelopment projects spear headed by Conor, we have, on occasion, drawn down from our land bank to unlock additional value in a mixed-use [concept]. Where the opportunities for mixed-use projects exist, we are careful to make sure that any non-retail component enhances the primary retail component; it is this synergy that increases the overall asset's value.

So, for example, in two quality centers in Washington, DC and Boca Raton, we are working with the best-in-class developers to build residential developments on excess land that we believe will create more demand for our centers' tenants, and overall, create a better asset for long term.

Let me be specific: in Pentagon Plaza just outside Washington, DC, a 750-apartment project is under consideration. And in Boca Raton, Florida, we are looking at 300 residential units to complement our shopping center. We are also considering a smaller residential project in Columbia, Maryland, which we believe will further enhance our existing retail center.

Now, in another instance, in the Bronx, in a shopping center that lies in the shadows of Yankee Stadium, adjacent to the Bronx County Courthouse and Bronx Municipal Building, in one of the densest parts of New York City, we built with a partner on excess land that we own behind the retail center, a five-story, 67,000-square-foot office building.

Our ability to unlock additional value in our current portfolio will play an important part in our future growth. And given the size of our portfolio and the length of ownership of many of our properties, some have been owned for more than 50 years. I am confident that we will continue to find value-creation opportunities within our portfolio.

And that, we will be happy to take any questions.

David Bujnicki - *Kimco Realty Corporation - VP of IR & Communication*

As Milton indicated, we are ready for the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session.

(Operator Instructions)

The first question comes from Paul Morgan from MLV.

Paul Morgan - *MLV & Co. - Analyst*

Hi, good morning. If I heard you right, the 44 assets that are under contract were at an 8.5 cap rate, is that right?

Conor Flynn - *Kimco Realty Corporation - COO*

That's correct.

Paul Morgan - *MLV & Co. - Analyst*

Is there anything, since that is higher than what your blended number has been, is there anything in terms of the mix that is noteworthy there? Obviously, you have you been talking about cap rates across the quality spectrum compressing. As we think about then the rest of the year and into 2015, and look at the quality of what you have, that you would like to sell from then on, what is the right number to think of?

Conor Flynn - *Kimco Realty Corporation - COO*

It is a fair assumption to say that the cap rate will continue to decrease over time. This 8.5% is really the last tranche of assets that we are moving out of from the midwest, and it is a portfolio deal that we are anticipating to close this year. And once that is completed, the assets that we will continue to look to dispose of will be at a lower cap rate.

Paul Morgan - *MLV & Co. - Analyst*

Thanks.

Operator

Next question comes from Christy McElroy from Citi.

Christine McElroy - *Citigroup - Analyst*

With your growing ground-up initiative, can you talk a little bit more about some of the markets you're targeting and the yields you're underwriting?

Conor Flynn - *Kimco Realty Corporation - COO*

We've started to look at our key markets. For all of our ground-up developments going forward, we would develop to hold long term. So these are our key markets where we already have boots on the ground and a portfolio of assets. And we are looking at potential adjacent parcels. We're also looking at areas where there is a lot of growth, whether it is employment or population growth.

So Houston is one that we are looking at right now. Fort Lauderdale is another one that we are looking at, as well as Christiania, Delaware. So those are the three that I think we are really focused on, to see if we could put together development deals for the next stage of the cycle. And we are underwriting to somewhere between a 7.5 to a 9.5 yield.

Christine McElroy - *Citigroup - Analyst*

Great. Thank you.

Operator

Next question comes from Craig Schmidt from Bank of America.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Thank you. I wonder if we can get a little more color on the reason you're expecting the anticipated acceleration in same-store NOI in the second half, whether it is leases signed, not occupied, the pickup in small shops, or maybe even a little more friendly currency exchange market?

Conor Flynn - *Kimco Realty Corporation - COO*

No problem. That's a good question. We still have a large cushion between our property leased occupancy and our economic occupancy. There is actually 230 basis points between the two. So those are deals that are fully baked and are yet to start flowing, and those we anticipate to come online in the second half of the year.

We actually budgeted -- each year we do an in-depth, asset-by-asset budget, and we saw that the second half of the year was actually significantly higher in terms of our same-site NOI growth. The other thing to keep in mind is we are coming off a pretty tough comp, up 4.2% in the second quarter of last year.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Thanks.

Operator

Next question comes from Samir Khanal from ISI Group.

Samir Khanal - *ISI Group - Analyst*

Good morning. On your leasing spreads, you guys put out close to 10% on a blended basis here. Looking forward, maybe into next year, you think this is a good run rate? Demand is certainly strong from retailers to maybe push renewals maybe into the low double digits and mid to high double digits, you think, for new leases?

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Conor Flynn - *Kimco Realty Corporation - COO*

The demand is definitely there to continue on that trend. It will probably -- spreads tend to be driven sometimes by one large deal, so you need to keep that in mind. But overall, because our portfolio is large, we do believe that our spreads will continue on that trend.

The demand from retailers is not subsiding, and we continue to see really a good pipeline of new deals, not only on spaces we currently have vacant, but on spaces we plan to recapture. So I think that is a fair assumption.

Samir Khanal - *ISI Group - Analyst*

Okay, great, thank you.

Operator

Next question comes from Jason White from Green Street Advisors.

Jason White - *Green Street Advisors - Analyst*

Good morning, guys. A quick question on your redevelopment pipeline: I know this is a tough question to pinpoint, but if you can broad brush. When you look at the amount of the spend that is going to be on -- in deferred maintenance-type projects versus true expansion projects, can you split that out in what is parking lots and roofs versus actual new square footage?

Conor Flynn - *Kimco Realty Corporation - COO*

We can go in and give you more detail on that and break it out for you. Right now, the way that we look at our redevelopment projects, it is really all encompassing. So if we have an old K-Mart that we need to reposition and demolish, improving the parking lot, improving the site lighting, improving everything at the asset, really goes into the redevelopment project.

But if it is a smaller scale project, where we are taking down only a portion of the asset and expanding it for a junior box, those are ones that really the majority of the costs go into the expansion of the box, rather than more site improvements. But we can go into more detail there and break it out for you.

Jason White - *Green Street Advisors - Analyst*

Okay, thanks.

Operator

(Operator Instructions)

Next question comes from Ryan Peterson from Sandler O'Neill.

Ryan Peterson - *Sandler O'Neill & Partners - Analyst*

Hi, just one question for me. I wanted to ask, given the demand for large boxes and scarcity of that space, is it possible that the economics might start to make sense for you to deepen small shop space and create more big boxes?

Conor Flynn - *Kimco Realty Corporation - COO*

It is a good question. We actually have seen that via trends, where junior boxes are actually stepping up their rents to be able to make the economics work. We have done it on a number of different sites, where we combine small shops and expand out the back of the shopping center. TJMaxx, Ross are the two that are probably the most active in that space, because they there is such a lack of new product, and lack of supply. So there is definitely that occurring in our portfolio, and we are actually working on a number of those deals going forward as well.

Ryan Peterson - *Sandler O'Neill & Partners - Analyst*

Great. Thank you.

Operator

Next question comes from Haendel St. Juste from Morgan Stanley.

Haendel St. Juste - *Morgan Stanley - Analyst*

Good morning out there. So you have talked extensively about the captive acquisition opportunities with your existing JVs. So my question is on the cap rate spread differential between open market purchases and these JV opportunities. And understanding every deal is different, it looks like the Boston portfolio and open market deal was acquired at about a 6-ish flat yield, while the recent SEB JV was consummated at a high 6 yield.

Wondering, should we view this as a representative spread? And then also, can you talk about potential disposition of redevelopment opportunities within both portfolios?

David Henry - *Kimco Realty Corporation - President & CEO*

Well, first of all, they varied widely, over the past couple of years, as we have been aggressively talking with our partners. Some of these deals are tougher negotiations than others, and the portfolios themselves are very different. You're right, it was quite a different spread differential between the SEB transaction and the Boston portfolio.

In general, we believe there is a round of 50 basis points difference, if you take a look at them all together. And a lot of that savings is not necessarily a difference in negotiating grade, it is the fact that there is a true win-win in these situations. There is generally not a third-party broker involved. There is generally much less transfer taxes involved.

We're not talking about mortgage assumption fees. We have the right to do these things. These are very quick acquisitions. We don't have to do a lot of due diligence. We know these assets; we have been managing them, so it truly is a win-win in many cases here.

Conor Flynn - *Kimco Realty Corporation - COO*

And on the dispositions and redevelopment question, we will be selling two assets out of the Boston portfolio, three assets out of the SEB portfolio, and we have already completed one of two out of the KIF portfolio. And then on the redevelopment question, because we have been managing the SEB and KIF portfolios, we have worked over those assets pretty significantly, and the majority of our redevelopment potential comes from the

Boston portfolio. There is a number of out parcels we plan to -- we actually have in the market right now, to users, as well as some mixed-use components, where we have to go through a lengthy entitlement process in Boston that we are optimistic about long-term and creating value there.

Haendel St. Juste - *Morgan Stanley - Analyst*

Thank you.

Operator

Next question comes from Ross Nussbaum from UBS Securities.

Jeremy Metz - - *Analyst*

Hi, good morning, Jeremy here. Obviously, you guys are making some good progress on the small-shop space. You mentioned a fair amount of leases in mom and pops this quarter. Can you talk about where you see small-shop occupancy going in the next 12 to 24 months? Does it get up to 90%? And then also what you think is helping drive a bit of the rebound in mom-and-pop leasing?

Conor Flynn - *Kimco Realty Corporation - COO*

It is a good question. I think in 24 months, we should see it get to 90%. We do have a large pipeline of pending deals that will continue on this trend in the upward momentum.

We've shifted our focus to the small-shop space, because we think that is really a large portion of our growth going forward. But we do see still growth involved in the junior anchors and the vacancies we have left there as well. So we do anticipate that that will continue, and we see the rebound in local businesses.

It is pretty apparent in our key markets that the mom and pop has come back in a major way. Hair salons, nail salons, service-based industries, restaurants, family businesses, have all come back to our shopping centers, and we anticipate that to continue as the economy strengthens. The housing market seems to continue to improve, and that should coordinate -- that should correlate to more small-shop deals.

David Henry - *Kimco Realty Corporation - President & CEO*

I would just add that the community banking system has recovered fully now and are more aggressive about local lending. Most of these smaller businesses rely on the community banking system. So if you are a jewelry store, or a local dry cleaner looking for a second, you really need that community banking system to be healthy. And it is now healthy, and those loans are going up and increasing. So that is helping.

Conor Flynn - *Kimco Realty Corporation - COO*

I would also add that it is such a local business, real estate, especially, for the local users, that in order to target those operators, you've got to have people on the ground combing the portfolio for those types of retailers to come into your shopping center. So in order to have that growth, we really focused on putting more people into the field at the property level.

Jeremy Metz - - *Analyst*

Great, thank you.

Operator

Next question comes from Rich Moore from RBC Capital Markets.

Rich Moore - *RBC Capital Markets - Analyst*

Hi, good morning, guys. You suggested, it seems, that there will be about another year, I think, of disposition activity before you're largely through the disposition process. And I'm curious, what is the volume that you think you have left in terms of dollars of disposition activity? And then when you're complete, what do you think your long-term same-store NOI growth rate would look like?

Conor Flynn - *Kimco Realty Corporation - COO*

We still have about a year left to go on our disposition pipeline. You're right. We have close to 200 assets still to move and we think that that is going to be right around $1 billion worth of assets. From the same-site growth perspective, we think we are exiting out of our lower growth assets, as well as our at-risk assets that weigh us down for such a large portfolio. And we are still targeting 3%, for 3%-plus, for a continual growth rate for our portfolio.

David Henry - *Kimco Realty Corporation - President & CEO*

And to somebody's earlier question, we do anticipate the cap rates drifting down from that 8.5% level we have been averaging on this next $1 billion, if you will. So it shouldn't be quite as dilutive as we have had in the past.

Rich Moore - *RBC Capital Markets - Analyst*

Okay. Great. Thank you, guys.

Operator

Next question comes from Michael Mueller from JPMorgan.

Michael Mueller - *JPMorgan Chase & Co. - Analyst*

Hi, I was wondering, we're thinking about development and redevelopment deliveries over the next few years, what sort of an annual number are you contemplating? And then, how do you see the mix shifting to include more new ground-up activity?

Conor Flynn - *Kimco Realty Corporation - COO*

Right now, our focus is really on redevelopment. We have built up the pipeline relatively quickly, and we anticipate $130 million or so to deliver this year; $150 million to deliver next year; $190 million to deliver the year after that, and then $230 million to be delivered in 2017. And then continue to ramp it from there.

Our ground-up developments will be additive to the pipeline and should give us a little bit more growth on the out years, because these redevelopments are assets that we can deliver in the near term. Where the ground-up development, when we go through the entitlement process and the pre-leasing process, it should add growth to our portfolio in the out years.

David Henry - *Kimco Realty Corporation - President & CEO*

What is a great sign for our industry and our Company is that rents have moved up enough to justify ground-up development now, so that is a significant milestone in terms of recovering from the recession.

Michael Mueller - *JPMorgan Chase & Co. - Analyst*

Got it. Thanks.

Operator

Next question comes from Jim Sullivan from Cowen and Associates.

Jim Sullivan - *Cowen and Associates - Analyst*

Good morning. A question for you guys regarding this position on Safeway. There was a shareholder vote recently that was in favor of the deal, and I guess as you proceed toward hopefully completing the deal, you have to go through the FTC. And I wonder to what extent, and I can understand if you are not comfortable talking about detail on this, but I wonder to what extent the likelihood of some store closings is having any impact at all on pricing in the market; i.e., if a lot of the Safeway/Albertson's boxes are going to have to come back on the market, stores being closed, to what extent is that inhibiting demand or pricing or terms on deals for those grocers looking to expand in the market now?

Ray Edwards - *Kimco Realty Corporation - VP of Retailer Services*

First off, there is not any intent to close any stores. What we are working through with the FTC is whether stores have to be divested, and by that, meaning that we have to find other operators that could continue the store's in operation, post-closing, and in a sense to keep it in a competitive marketplace. So to close its doors and cease the operations would not make it competitive, would only help.

So the FTC is going to be looking for us to find other buyers that are qualified by the FTC to run these stores. And at this point, there is no planned store closings due to the merge in the Company.

Operator

(Operator Instructions)

Next question comes from Chris Lucas from Capital One Securities.

Chris Lucas - *Capital One Securities - Analyst*

Good morning, everyone. David, just a quick follow-up on the comments you made about development. When you think about the time frame over which this had happened, is that a recent phenomenon where rents have met the threshold where development makes sense? And are there -- is this a national or very specific locally phenomenon?

David Henry - *Kimco Realty Corporation - President & CEO*

I believe it is a recent occurrence, where rents have significantly jumped, and particularly these national retailers are beginning to be particularly anxious about meeting the store counts that they've promised Wall Streets and internally. And I don't think it is related to any particular market.

Obviously, there is stronger markets, and some of these primary markets we have talked about before are magnets for retailers. They are obviously looking for where there is job growth, and good demographics, and population growth is where these retailers want to expand.

And I think Conor gave you a good range in terms of Houston, Florida, and New Jersey, as being the three that we're looking at now. But six months ago, we weren't looking at ground-up development, and I doubt many of our peers were either.

So it is a significant milestone, in my opinion, that rents have jumped to this level and the economy is doing well enough. And as I mentioned, consumer confidence being at an all-time high, compared going all the way back to October of 2007, that all bodes well, I think.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over David Bujnicki for any closing remarks.

David Bujnicki - *Kimco Realty Corporation - VP of IR & Communication*

Thank you to everybody that participated on our call today. As a reminder, additional information for the Company can be found in our supplementals as posted on our website. Have a good day.

Operator

This conference is now concluded. Thank you for attending today's presentation. You may now disconnect.
