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KIM - Q4 2017 Kimco Realty Corp Earnings Call

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OVERVIEW:

Co. reported 2017 NAREIT FFO per share of $1.55 and FFO as adjusted of $1.52 per share. 4Q17 NAREIT FFO per share was $0.38 and FFO as adjusted or recurring FFO was $0.39 per share. Expects 2018 FFO per share to be $1.42-1.46.

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PRESENTATION

Operator

Good morning, and welcome to the Kimco Realty Corporation Fourth Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note that this event is being recorded.

I would now like to turn the conference over to David Bujnicki, Senior Vice President. Please go ahead.

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR and Strategy*

Good morning, and thank you for joining Kimco's fourth quarter 2017 earnings call. Joining me on the call today are Conor Flynn, our CEO; Ross Cooper, President and Chief Investment Officer; Glenn Cohen, CFO; and Dave Jamieson, our Chief Operating Officer; as well as other members of our executive team.

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.

During this presentation, management may make reference to certain non-GAAP financial measures that we believe help investors better understand Kimco's operating results. Reconciliations of these non-GAAP metrics can be found in the Investor Relations area of our website.

And with that, I'll turn the call over to Conor.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Good morning, and thanks for joining us today. We finished off 2017 with a tremendous effort by the entire Kimco team. Our leasing activity in the fourth quarter capped off a record year, validating the desirability of our portfolio with positive trends in occupancy, leasing spreads, same-site NOI and recurring FFO. Our portfolio has proven resilient, but we recognize that the goalposts are constantly moving, and that's why we continually strive to enhance the quality of our portfolio.

Our primary focus in 2018 will be to further upgrade the portfolio by disposing of assets that do not meet our long-term objectives, while continuing the development and redevelopment projects. While this will have a short-term dilutive impact, it positions us for long-term growth and as a leader in our space. We anticipate another year of mixed results for retailers in 2018 with store rationalization continuing and additional store closures. To us, this means the need for continued focus on our 2020 core principles: create a portfolio of the highest possible quality with a significant runway for growth; maintain a solid balance sheet that can continue to provide flexibility in this rapidly changing environment; and continue to run a redevelopment program that creates substantial value. To achieve these goals, we are taking the following steps.

First, further improve portfolio quality by becoming more weighted in coastal markets and grocery-anchored centers. The majority of our portfolio is becoming concentrated in New York, the D.C.-Baltimore-Philadelphia corridor, Miami, Los Angeles and the Bay Area.

Second, notwithstanding our ample liquidity position, favorable debt maturity profile and capacity to repurchase stock, we remain focused on strengthening the balance sheet and maximizing its flexibility. We have already made progress on this goal, and Glenn will go into more detail on the strides we've made during 2017.

Third, we will continue to strategically recycle assets, which serves several purposes. It strengthens the overall quality of our portfolio, as we further refine our demographic and geographic mix, and it provides the growth capital to support our development and redevelopment programs. Ross will provide more details on our objectives for 2018.

Fourth, maintain our strong leasing momentum and increase same-site NOI. The lifeblood of the business is leasing, leasing, leasing. And we continue to see strong demand for Kimco's high-quality and well-located properties. David Jamieson and the team are working nonstop to stay ahead of the changes occurring in retail, partnering with innovative retailers and service providers and exploring ways to streamline and expedite the leasing process.

Fifth, unlock the embedded value from our existing redevelopment and development projects, both of which offer significant value creation and outsize deals. These projects include the redevelopments of Pentagon Centre and The Boulevard and the developments of Lincoln Square, Dania Pointe Phase I, Grand Parkway Phase II and Mill station, which we recently announced will be anchored by Costco. Grand Parkway Phase I is now open and continues to enjoy strong demand. With respect to our Christiana development, we've elected to reclassify this into land held for future development category, given the change in our cost of capital and funding requirements for our other projects that are closer to being finished and generating cash flow.

And finally, we will continue to focus on our margins and improve efficiency across the company. As an example, we recently made the decision to close our Midwest office and streamline our regional operating structure. Glenn will cover this in more detail.

We believe these steps will produce a higher quality portfolio, more flexible capital structure and long-term growth. I can assure you that our management team is committed to continually improving Kimco's overall performance and is working tirelessly to achieve each of the steps I just outlined. Demonstrating continued confidence in our plan, the board has put in place a $300 million share repurchase program that will serve as another vehicle to return value to shareholders.

And with that, I'll turn the call over to Ross.

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Thank you, Conor. Overall, we had a very productive fourth quarter and full year 2017 on the investment side with gross transaction volume close to $950 million. This was highlighted by accelerated fourth quarter dispositions amounting to $234 million with KIM share of $174 million. We ended the year as a modest net seller as a result of our strong fourth quarter sales execution. The blended cap rate on the 16 centers sold in Q4 and for all 38 shopping center sales in 2017 were in the mid-7% level.

On the acquisition side, we acquired Whittwood Town Center in Los Angeles, California with long-term redevelopment and value creation opportunities. As noted previously, this year we intend to be substantial net sellers totaling between $700 million to $900 million. Any acquisitions we undertake in 2018 will focus on accretive adjacent or unowned anchor parcels within our existing portfolio.

On the investment landscape, we continue to see a bifurcation in pricing between high-quality core markets and those outside the major institutional focus. Cap rates on the best assets remain sticky and at all-time lows with recent transactions on both coasts trading in the 4s and low 5 range, driven by strong investor interest, whereas non-core secondary and tertiary assets, particularly those without a grocery component, continue to rise. While each asset is unique, we see the spread between core and non-core anywhere from 250 to 300 basis points at this time.

Although there is an increase in supply in the market related to our disposition plans and those of several peers, there continues to be plenty of interest and capital available, primarily from local or regional operators with the backing of private equity capital providers. These buyers are finding the going in yield attractive and are able to access the debt markets, thereby providing a healthy cash-on-cash return.

Even with interest rates moving up over the first 45 days of the year, we have not seen any pullback related to the ability or cost of obtaining financing. This gives us confidence on our ability to execute on our 2018 sales targets, and we've gotten off to a great start with $30 million of dispositions completed and another $300 million under contract or with an accepted offer. Additionally, we now have over $475 million of properties in the market for sale.

Glenn will now provide additional color and insight on our 2018 guidance and financial performance for the quarter.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Thanks, Ross, and good morning. We finished 2017 with positive operating results, a solid balance sheet and a strong liquidity position and are now focusing on our 2018 objectives, as outlined by Conor and Ross.

Now for some details on our 2017 fourth quarter and full year results and then further color regarding our 2018 guidance.

NAREIT FFO per share was $0.38 for the fourth quarter, which includes $5.2 million or $0.01 per share of severance charges associated with the consolidation of our central region as part of a corporate restructuring. We are marketing many of the properties in this region for sale, which we anticipate selling in 2018 with the remaining high-quality assets having been absorbed by our other regions. For the full year, NAREIT FFO per share was $1.55. This includes $11.3 million or $0.03 per share of transactional income net of transactional expenses comprised primarily of the $23.7 million distribution from Albertsons and a $14.8 million foreign exchange gain. These gains were offset by early debt repayment and preferred redemption charges of $9 million, land impairments of $11.8 million and severance charges of $5.2 million, just mentioned.

FFO as adjusted or recurring FFO, which excludes transactional income and expenses as well as nonoperating impairments, was $0.39 per share for the fourth quarter, $0.01 above the $0.38 per share reported last year. Our fourth quarter results benefited from an increase in NOI of $9.5 million including the pro rata portion from our joint ventures. This was driven by higher minimum rents and lease termination fees, despite a $1.8 million negative impact from our Puerto Rico properties due to Hurricane Maria. Offsetting the increase to NOI was higher interest expense attributable to the higher debt balances.

Our full year 2017 FFO as adjusted was $1.52 per share versus $1.50 per share for 2016. The increase is primarily attributable to improved consolidated NOI of $18.7 million and lower recurring G&A expense and tax provision of $5.4 million, collectively. This was offset by lower JV FFO contribution of $10.9 million due to assets sold and transferred, including those related to our exit from Canada. Our FFO growth has been impacted in the short run from the $402 million invested in development projects, which will begin cash flow late in 2018 and into 2019 and beyond.

Our operating metrics remained strong, as we ended 2017, with occupancy of 96%, up 60 basis points from 1 year ago and up 20 basis points since last quarter. Anchor occupancy increased to 98.1% and small shop occupancy finished the year at 89.6%. For the fourth quarter, new leasing spreads were higher by 13.2%, with renewals and options rising 7.9% for combined positive leasing spreads of 9.2%.

Same-property NOI growth was 1.2% in the fourth quarter and includes a reduction of 40 basis points from redevelopment projects and a negative 120 basis points due to the impact of Hurricane Maria on our Puerto Rico properties. Absent these items, same-property NOI growth would have been 2.8%. For the full year, same-property NOI increased by 1.7%, including a 30 basis point reduction attributable to Puerto Rico. Beginning in 2018, our same-property NOI population will exclude our 7 Puerto Rico properties.

Turning to the balance sheet. We finished 2017 with consolidated net debt to recurring EBITDA of 5.9x and on a look-through basis, including our pro rata portion from JVs and preferred stock outstanding of 7.1x. In December, we issued $230 million of 5.25% perpetual preferred stock and, subsequent to year-end, an additional $34.5 million as the underwriters exercised their overlap and adoption. During 2017, we issued $1.25 billion of unsecured bonds with a weighted average interest rate of 3.78% and a weighted average maturity of 14.6 years. In just the past 2 years, we've increased our weighted average maturity profile to 10.7 years from 5.3 years. Subsequent to year-end, we repaid $162 million of secured debt, leaving only $23 million of debt maturing for the remainder of 2018. Our liquidity position is excellent with over $2.1 billion of availability on our revolving credit facility and just over $400 million of debt maturing through 2020.

Now for some color on 2018 guidance and the underlying assumptions. As a reminder, our 2018 guidance excludes any transactional income and expense. As such, our guidance for 2018 NAREIT-defined FFO and FFO as adjusted are the same. We will incorporate transactional income and expense as it occurs.

Our FFO guidance range for 2018 is $1.42 to $1.46 per share. This guidance range takes into account the dilutive impact of our fourth quarter 2017 dispositions and the financing costs associated with the $264.5 million of 5.25% perpetual preferred stock that was recently issued. The guidance range also assumes net dispositions of $700 million to $900 million with blended cap rates between 7.5% to 8%. The proceeds from these sales will help satisfy the funding requirements related to our development and redevelopment projects, which are projected to total $425 million to $525 million in 2018. As a reminder, only Phase I of the Dania development is expected to start generating cash flow in 2018. Any proceeds received in excess of the development and redevelopment costs may be used to opportunistically reduce debt, redeem callable preferred stock or repurchase common shares pursuant to the common share repurchase program we've announced today.

Our growth range for same-property NOI is 1.25% to 2%. The low end of the range reflects our expectation for the first quarter same-property NOI level, which we believe will be the low point for 2018. This is due to the several bankrupt tenants that were in place in the first quarter of 2017 that subsequently vacated. Our range also considers the uncertainty around tenant bankruptcies and fall-out after the holiday season, including Toys "R" Us. Despite the potential negative impact of these circumstances, we are comfortable with the upper end of the same-property NOI growth range, given the wide spread between our leased versus economic occupancy level, which stands at 270 basis points.

As a final point, our team is focused on execution, highly motivated and confident about our future.

And with that, we'd be happy to answer your questions.

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR and Strategy*

We're ready to move to the Q&A portion of the call. (Operator Instructions) You can take the first callers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Craig Schmidt of Bank of America.

Craig Schmidt - *BofA Merrill Lynch, Research Division - Director*

I know, Ross, you touched on it, but I thought the cap rates were going to be a little lower given that this is improved assets given the first rounds of dispositions. So just wondering about that 7.5% to 8% cap rate.

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes. No, it's a good question, and we've seen consistency in the pricing. And actually, I've been very encouraged by the buyer pool and some of the new capital formations that we've seen. The bids that we've been receiving on the assets we've been putting into the market have been pretty aggressive. So we're certainly hopeful that we'll continue to achieve the lower end of that cap rate range into the mid-7s. But we are giving ourselves, I guess, a little bit of flexibility to continue to execute on our strategy and ensure that we hit our targets, which we're very comfortable that we will.

Craig Schmidt - *BofA Merrill Lynch, Research Division - Director*

Okay. And then just maybe for Glenn. Where would you target your dividend to AFFO payout ratio? Where would you be comfortable with that being?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

So overall, we wanted to be around 90%. Now today, it's a little higher than that. But as the EBITDA starts coming online from our development and redevelopment projects, that will help drive it down.

Operator

Our next question comes from Samir Khanal of Evercore ISI.

Samir Khanal - *Evercore ISI, Research Division - MD & Fundament Equity Research Analyst*

So Conor, just on the transaction market again. I mean, I guess, what gives you the confidence that you'll be able to execute on kind of that $800 million for the year? I mean, many of your peers are sort of doing the same thing. It feels like assets are flooding the market. You're not getting a lot of -- there isn't much bid for anything sort of over $50 million. So it feels like there's a lot of work to do with the $15 million to $20 million kind of one-off assets. And I mean, is there a risk that some of this could kind of trickle into '19 at this point? I'm just trying to get a sense of when you think about dispositions, is it -- what's under contract? And should we think about it being more sort of first-half weighted? Or how much of that could trickle into the second half of '18 here?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

No, it's a good question. I think when we look at our execution on the dispositions of the portfolio to date, that gives us confidence that we're going to be able to execute. I mean, we've been able to do a one-off strategy for repositioning the portfolio significantly. We've sold now close to $6 billion worth of real estate and feel like we have the team in place. We have the execution ready to go. That's what gives us confidence that we'll be able to hit those ranges. Ross, what do you think?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes. I mean, I would just add that, over the last few months, I mean, we've had countless meetings and phone calls with investors, operators, brokers, and there really has been, I think, in some sense, a renewed interest from some players that really, frankly, have been on the sidelines for the last few years and are starting to reemerge, as they're seeing attractive pricing and cash yields in today's environment. So we have $300 million under contract or with an accepted offer with a significant amount behind that. And as you said, I mean, the average deal size for us really is in that $15 million to $20 million, maybe $25 million range on some deals, which seems to be the sweet spot for investors. There is no doubt it is a significant amount of work to do it on a one-off strategy. We are talking with groups and are looking at a few smaller sub-portfolios, although we think that a larger portfolio has too heavy a discount for us to take. So it's no doubt a lot of work, but our team is motivated. Everybody is working hard to get it done. And we are confident that we'll hit our targets.

Operator

Our next question comes from Ki Bin Kim of SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So let's say you get everything done that you want and $900 million of asset sales this year, it probably doesn't change your leverage ratio a whole ton because you are using all those proceeds for redevelopment, and I know there's a timing issue with EBITDA flowing in. But reasonably speaking, how much more could we expect in asset sales in 2019?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

It's a good question. I think when we look at our portfolio today, we really want to have a clean portfolio in 2019, so we're going to make sure -- and that's why we have an elevated disposition plan for '18, so that going forward, we have a clean portfolio that's really heavily weighted toward the coasts. That's where we see the highest growth. That's where we see the biggest barriers to entry. So that's where we're positioning ourselves going forward. We know we have to execute on that, and our team is geared up to do that. But going forward, that's our game plan.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Still -- but my question is, does that $900 million get you there? Or is there a -- possibly another round that you have to do?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

That gets us there. That really cleans up the portfolio and gets us to a run rate where we see us continuing to be well positioned for growth into the future years.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. And just last question. When you look at the composition of things you're looking to sell, any large power centers in there that might be a little bit more problematic?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes. The composition really is a bit of a cross-section of our portfolio, so there is some grocery. There are some unanchored centers. But it is heavily weighted towards power. The deal size is primarily in that $20 million to $25 million range. There is 1 or 2 assets that, I would say, are larger power centers. One of them that we have in the market today in Missouri, we're getting exceptional early interest, so we're confident that we're going to hit our price targets there. I think you saw yesterday announced there was a big power center in Idaho that was recently acquired at north of $75 million. So there are buyers for that type of product. And we're confident that we're going to be able to move the few that we have that are a bit larger in size.

Operator

Our next question comes from Jeremy Metz of BMO Capital Markets.

Robert Metz - *BMO Capital Markets Equity Research - Director & Analyst*

Ross, going back to one of the earlier questions on dispositions in the 7.5% to 8% yields here, are you factoring in raising any capital from new joint ventures? Is that something we could see this year as a way to possibly raise some more attractively priced capital in addition to selling that bottom rung in that high single-digit range?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

We always look at our disposition program in a way to try and execute and get those assets out of the portfolio for potential new opportunities. I think we have always stated that we have an existing JV platform, 3 very strong partners that want to continue to do business with us. We don't currently have any plans to announce today of launching a new JV. But again, we have that as an arrow in our quiver.

Robert Metz - *BMO Capital Markets Equity Research - Director & Analyst*

Got it. And then in terms of the buyback, you obviously have a pretty full pipeline of spend here with nearly $500 million of redevelopment, $100 million of maturities and amortization, I think you took care some of that already so far this year. You've also talked about delevering further with proceeds. So trying to understand exactly where buybacks fit on the priority scale. Would you be willing to increase the dispositions further to fund it and kind of what it means for your longer-term goals of getting a rating upgrade?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Again, the rating continues to be very important to us. As you know, we're BBB+ solid, stable and continuing to head towards, over time, what would get us to that A-, A3 rating. But that really is an over time issue. As it relates to the buyback, first and foremost, we're focused on funding our developments and redevelopments, as we talked about, so that's in this $425 million to $525 million range. And then we have options that are really open to us. We'll see where the stocks trading. We have $575 million of perpetual preferred that's all callable today. And then debt reduction, we've already paid $162 million of debt already this year. So there's not a whole lot of debt more that we could pay down. The next bond that we have is October of '19 and that's at 6 7/8%, so that's another option for us to take a look at earlier on.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

We do think our stock is incredibly cheap. I mean, that's the reason why we have the share buyback program in place. And we do see that as an opportunity to really showcase the disconnect between public and private pricing right now.

Operator

Our next question comes from Christine McElroy of Citi.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

Appreciate the color on executions towards the upper end of the same-store growth range. Can you just give us a sense for exactly what's buffered in there for tenant fallout, just a little bit more color on that, what you know and what you don't? And you had previously expected, I think, a bit of an uplift, so a higher growth rate in 2018. What's changed exactly in the last 3 months?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Christy, we're still looking to see what Toys does. I mean, they're trying to reemerge from bankruptcy here. We've seen their lists. And yet, they're still trying to figure themselves out, as they had a very difficult holiday season, as you know. So there are still a few things early on in the year that have to play out that really will determine where we sit on that guidance range in terms of same-site NOI. We do like the demand we're seeing from our stable of tenants that continue to want to grow stores with us. We see that, that's very, very strong, We are monitoring shadow supply, as we've been talking about, as we continue to reposition the portfolio and move it more coastal. I think we'll continue to see more demand for our centers.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

Great. And then just with regard to what you already have leased, just -- there's a big difference obviously between the leased rate and the commenced rate. Can you just give us a sense for the magnitude of dollars of leases that have been signed, but have yet to commence and sort of the timing of those commencements as we sit through the year?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

The total dollars of what's signed is probably in the $10 million, $15 million range of what's there already. So that's going to start coming online as we get more towards the middle to the second half of the year. And we think that, that gap should start closing, that 270 basis points gap.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Yes, he did see it close.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Right. You saw a 50 basis points tighten already. And again, we'll have more leasing and then you have the ins and outs that go with it. But we expect that, that will start to tighten as we get later into the year.

Operator

Our next question comes from Rich Hill of Morgan Stanley.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity and Commercial Real Estate Debt Research and Head of U.S. CMBS*

I want to just go back to the share buyback program and maybe focus on your comments last quarter and what's changed. Now I certainly hear the understanding that the stock looks very cheap in your mind. And certainly, it's down, I think, around $4 since last earnings. But last earnings, you were mentioning that it didn't necessarily make sense relative to maybe debt to EBITDA and you thought that there were better sources of capital, specifically your redevelopment program. So I'm curious. Obviously, some -- a lot of things have changed with your share price, but how are you thinking about that relative to your debt loads and your development pipeline?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

So from a -- the first point is the share price look where it is. You look at our FFO yield based on earnings today, it's almost 10%. Our dividend yield is over 8%. So that's pretty dramatic shift than what we were even 3 months ago. So that brings into question should we have this program available to us. The other thing that we did was we have ramped up the size of our disposition program that could -- again, is there to fund our developments and redevelopments. And then beyond that, again, we have the availability if the price is going to be at those levels where we could use it towards that, keeping in mind that our rating is very important to us. So we're not going to allow net debt to EBITDA or fixed charge coverage or any other debt metric to get out of control or be above a level that would put that at risk. But we are cognizant of where the share price is, and we have opportunities available to us.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

I think that's right. I think when you look at the long-term prognosis of the business, we still believe in the redevelopment being really a tremendous return on our capital. And yet, we see how cheap the price is today in our stock and where we sit, and it is a tremendous value. And so that's why we have pushed to put a program in place. We still have the redevelopment as a priority for creating long-term shareholder value. But yes, we want to be opportunistic and take the advantage when we can when it presents itself with the share price.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity and Commercial Real Estate Debt Research and Head of U.S. CMBS*

Got it. And just one more follow-up question on that. To me, it sounds like you're saying it's not necessarily -- you're not comparing where you could buy back shares relative to where you're selling assets because we see that as modestly accretive, not super accretive. It just sounds like relative to all of your other opportunities that this is a good use of capital relative to 3 months ago, wouldn't they have been slightly less of a priority. Is that all fair?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

That's fair. That's how we allocate it.

Operator

Our next question comes from Alexander Goldfarb of Sandler O'Neill.

Alexander Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior REIT Analyst*

So 2 questions. First, Conor, you guys had previously said you were done with the major portfolio repositionings. And now you're obviously embarking again. So curious, what's the decision to sell mostly the Midwest? Is it the reemergence of buyers that you guys heard talked about? Or is there something different that you saw in either the growth of the IRR profile of the Midwest versus the coastal preference that the new portfolio will be?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

It's a good question. I think when you look at the profile of the Midwest, it's heavily weighted towards bigger boxes. And we've just seen that the growth profile there just doesn't measure up to what we've seen on our coastal properties. And so when we look asset by asset and went back through the disposition targets for this year, we really wanted to clean up the portfolio to showcase that the -- really, the bedrock of the portfolio is growing substantially higher than, let's say, the Midwest was growing at. And so when we look at that, we think that prioritizing it and pushing it out this year is going to really set us up nicely to showcase how much embedded growth we have in the rest of the portfolio.

Alexander Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior REIT Analyst*

Okay. And then as a follow-up to that, you mentioned that you took Christiana out of the development and put it back, I think, you said as land or existing asset. Just curious how your hurdles have changed, how Christiana compared to some of the other projects that you'd -- that you're continuing on with. And then going forward, on new deals, let's assume that the stock doesn't recover, it stays where it is, essentially, what are your -- how are your hurdles changing for new projects? Or is your view that, hey, this is sort of what Glenn was saying, if the stock is down here, better off to buy back stock versus put proceeds into redevelopment for future?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Yes. On Christiana, it's a site that we looked at and we thought that it was best to take it off-road just because of where our cost of capital sits today. We still believe in the site longer term. It has tremendous frontage along I-95. It sits right next to GGP's Christiana Mall. It does over $1,000 a foot in sales. But it's one where -- when we look at our cost of capital, we had the opportunity to say, "We already have a significant development pipeline." Where the cost of capital is changed, we can then allocate that to the priorities and show that the projects that are already underway are going to deliver significant growth and move that one more to the land held for development. So it's really just being a prudent capital allocator and understanding that our cost of capital has changed significantly. Going forward, you'll see us do more of the redevelopments that have significantly higher yields on average, those have been between 9% and 11%. That's where we still see tremendous value to be created in the portfolio. So that's really where we prioritize it going forward.

Operator

Our next question comes from Nick Yulico of UBS.

Greg McGinniss - *UBS Investment Bank, Research Division - Associate Analyst*

This is Greg McGinniss on for Nick. Regarding the Toys "R" Us closures, were those in line with your expectations? And are you in further discussions with the retailer regarding rent release?

David Jamieson - *Kimco Realty Corporation - COO and EVP*

Yes. This is Dave Jamieson. It's a great question. We've been closely monitoring Toys for an extended period of time. And so coming out of their holiday season, appreciating that they had some clear challenges, we had anticipated that there would be some adjustments to our existing portfolio. We marked down 24. We're actually down to 23 at this point on this call today. And we are in active discussions with them as well as we work through each of the leases. We're -- we've had success. We've been able to restructure leases, reduce term. We secured the rights to recapture the box. And what that's enabled us to do is to go back as the market with the other growth tenants as well and identify new opportunities and be very proactive in preparing opportunities to backfill depending on how they emerge from bankruptcy today.

Greg McGinniss - *UBS Investment Bank, Research Division - Associate Analyst*

Right. So following up on that, with these anchored givebacks and potential Sears bankruptcy, how's that fit within your redevelopment pipeline? And you mentioned tenant demand. How strong is tenant demand for these box sizes?

David Jamieson - *Kimco Realty Corporation - COO and EVP*

Tenant demand for these boxes has been extraordinarily high. We've seen it from all the off-price guys. We've seen it from the grocers, the business uses. So we are very confident in terms of our ability to backfill these boxes. As it relates to Sears comparatively as well, we've -- when we look at what's remaining in our core portfolio with Sears and you look at where these are located, they're really on the coast. They're in South Florida. They're in California. They're in Washington. When you look at the population densities on a pro rata basis, it's about 150,000 people that excludes those that are, say, like, Bridgehampton and the KEYS, which are extremely high-barrier to entry markets with very limited supply. And there's no way in which you can construct anything new. So putting all that together, that creates tremendous opportunities for our redevelopment pipeline going forward.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

I would just add that the average rent on the Toys boxes is around $11. And that's 15% to 20% below market when you look at the locations we have. So we feel optimistic that if we can recapture some of these boxes, we'll be able to do some higher-quality tenants that will drive more traffic that will add value to the rest of the shopping center.

Greg McGinniss - *UBS Investment Bank, Research Division - Associate Analyst*

And sorry, just one quick follow-up here. After the $425 million, $525 million in development spend this year, how much do you expect that outlay to fall in 2019 and 2020?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

We'd probably be around $250 million to $300 million during 2019.

Operator

Our next question comes from Haendel St. Juste of Mizuho.

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Glenn, I guess, the question for you first on the FFO guidance. Curious what's embedded in there in terms of expectations for distribution from Albertsons. And then could you also give us a sense of what you're perhaps expecting in terms of insurance proceeds from Puerto Rico?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

So there's nothing put in numbers at all for Albertsons. Albertsons, when and if something happens there, will just be upside to us. As it relates to Puerto Rico, insurance, our guess is we're probably around $2.5 million to $3 million less in NOI from the Puerto Rico properties versus last year. And then the insurance proceeds, we'll probably get a couple of million dollars is our guess during the year, so that will help bridge that. You have to realize, in Puerto Rico, most of the tenants that were there are actually back up and running. The properties are performing. They all have power again. There's a lot of heavy traffic at the assets. And we're just under 95%. I think we're 94.7% occupied today. So the properties are actually starting to perform well again.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

We've actually seen a boost in demand down there, as well. I think being a well-capitalized and efficient operator in Puerto Rico has given us the ability to get our sites open and operating quickly. And there's a lot of retailers that have come to us that have not been able to rebuild or have a landlord that's not well capitalized to get them back open up -- open and operating. So we've actually gotten some increased demand from retailers looking to come to our centers.

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

I appreciate that. Glenn, the couple million you mentioned there, is that embedded in the FFO guidance, the Puerto Rico proceeds?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Yes, yes.

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Okay. And then on the same-store NOI guidance. What's embedded there for bad debt and redev? And what are you assuming for expense growth? And then how should we think about potential further cost savings in the portfolio if you sell another $900 million this year? Is there anything embedded in the guidance for that?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

In terms of bad debt, again, we run around 1% as our reserve on that. What's the second part of your question, Haendel, I'm sorry?

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Thinking about the portfolio as you sell assets here another maybe $700 million to $900 million potential cost savings to the platform as you think about rationalizing some of your costs.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Again, part of the closing and consolidation of the Midwest region relates around selling a lot of those assets, so that you'll see that it's going to impact in our G&A line. I mean, if you look at our G&A, it's relatively flat and has been held relatively flat for several years now with the things that we've been doing.

Operator

Our next question comes from Michael Mueller of JPMorgan.

Michael Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

So going back for the $700 million to $900 million that you're selling with the cap rate 7.5% to 8%, if we go beyond that and just think about how the balance of the portfolio is, is there another sizable chunk of assets that you would say the cap rate is 6.5% to 7% and we should think of it as radically getting better? Or is there -- once this chunk of the portfolio was gone, a notable step-up in terms of the quality and a drop in the cap rate? I mean, how would you size it up outside of what you're selling?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

I think your latter part there is correct, it's -- there's a sizable step-up in quality when we move out of the Midwest. And you look at the assets that we have up and down the coast, and we think we're toe to toe with the best in the business. And so we'll have to prove it out, obviously, with our numbers and our execution and showing that the growth is there. And that's on us to make sure that it shines through. But we really do believe that there's going to be a significant jump in quality once we execute on our disposition plan this year.

Michael Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then just a timing question for the disposition. How do you see that playing out throughout the year? I know you have a decent amount under contract right now.

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes, we're pushing to get as much done as quickly as we can. We're confident that the first half of the year is going to be very strong, and that's definitely our game plan with continued execution through the third and fourth quarters. But we're pushing to get as much sold in the first half of the year as possible.

Operator

Our next question comes from Wes Golladay of RBC.

Wesley Golladay - *RBC Capital Markets, LLC, Research Division - Associate*

Looking at the existing pipeline and the supplement for development and redevelopment, it looks like there's just a little over $500 million of total spend at Kimco's pro rata share. So how much of the development spend and redevelopment spend that you identified for 2018 is attributable to this pipeline we see in the supplement? And how much is it for committed landlord work and tenant allowances or potential new projects later in the year?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

So the $425 million to $525 million is really split between the developments and the redevelopments. The developments are about 2 -- it's about half of it, about $200 million, $225 million of it. And then the redevelopments are about $250 million, $275 million of it.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

And I would just add that we don't plan to add any new development projects other than the existing assets that we're working on. And that you will see us continue to work on entitlements for redevelopment, as we continue to think that, that's got to be the priority for the company longer term.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

When you think of the redevelopments of the Hylan project, it's pretty large. It's just $186 million project. It's already -- in Staten Island. The project -- groundbreaking has already been done. Construction is happening. Money is being spent. So that project is moving along pretty quickly. The same thing with our Pentagon project. Again, you have the tower that's being built, so there's a lot of capital that's going into that project as well. So those are the 2 major places where the capital is going. And as you know, the developments that we have, so we're continuing to spend on Dania. Phase I should be opened by the end of '18, so there's a lot of capital that's going into that one as well.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

And then Phase II will follow that.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Right. And Lincoln Square as well.

Wesley Golladay - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And then with the dispositions, are you -- what about -- will there be a lot of mortgages tied to these properties? Or should we expect a big cash drag, maybe retire preferred later in the year? How are you modeling it in guidance?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

It's very, very little mortgage debt tied to any of these properties we're selling.

Operator

Our next question comes from Chris Lucas of Capital One Securities.

Christopher Lucas - *Capital One Securities, Inc., Research Division - Senior VP& Lead Equity Research Analyst*

I guess, 2 quick ones. Glenn, I recognize you have a real focus on looking to maintain and then prove your credit rating. I guess, one of the questions I would have is just, as it relates to the preferred stack, is there more capacity there? You had a really very solid execution in December. Just curious, is there more availability within your capital stack to do more preferred?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

There's more availability, for sure. I think where we are is just a little bit over $1 billion. Again, it's somewhat pricing sensitive. The reality is if you look at where pricing is today, it's probably starting to approach now 6%. So at the time we issued 5 1/8%, 5 1/4% for long, long dated paper that doesn't have a maturity, that works really well, as you start getting into higher coupon levels become somewhat less attractive. And again, if you look at where we are from a maturity profile, again, we had so little debt maturing between now and 2020. And we have really between, with the sales, the ability to fund all of our development and redevelopment projects. And what we're counting on is as those projects get completed and that NOI starts coming online that you'll start to see net debt to EBITDA drop.

Christopher Lucas - *Capital One Securities, Inc., Research Division - Senior VP& Lead Equity Research Analyst*

Okay. And then just on the -- Conor, on the retailer environment, I guess, I'm just curious as to how maybe you would compare where we are today versus a year ago. It feels more stable. There has been some store announcements, but the environment feels better. Is that your sense?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

I think that's accurate. I mean, when you look at the strength of the retailers today, it continues to be in the off-price categories, in the health and wellness categories, the specialty grocers. Inflation is coming back a little bit, so that should really help grocery stores. And then you look at the fitness and what's going on there. You continue to see huge demand for stores. And I think one of the biggest things that sometimes is missed, is retailers are starting to recognize the importance of the physical store to the omnichannel network. And I think you're going to start to see more and more retailers start to showcase sales as a combined number, rather than just an e-commerce sales number and a physical number because, I think, the race there was to show how much e-commerce is growing when, in effect, it's one big network. And I think retailers are starting to recognize how important the store is to that network. And I think that's what's really going to boost the sentiment going forward, is how important it all connects together.

Operator

Our next question comes from Christian Rafool of Wells Fargo.

Christian Rafool

I'm calling in as a shareholder and as a portfolio manager, and my main question is basically looking at or listening to the conference call today, 2 things really stuck out to me and that was Ross' comments regarding the current environment from the physical assets is at an all-time low in cap rates, which translates, to me, as meaning all-time highs in prices. And then the other comment is from the guys that described the big disconnect from the public markets and the stock price versus what's happening in the private market and describing our share price as a tremendous value and incredibly cheap. And I'm just wondering to myself, have we considered maybe that one of the best programs we could do is, with that $900 million, using it to create a fortress-like balance sheet, buyback our own stock?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

I think it's a great idea. Actually, it's something that we believe in and think that if you look at our playbook, that's exactly what we think we should be doing. So we've got a lot of execution, especially on the disposition side of it as well as on leasing. But we want to make sure our balance sheet is in the best shape possible and buy back shares to really showcase that disconnect between public and private pricing.

Operator

And our next question is a follow-up from Christy McElroy of Citi.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

It's Michael Bilerman here and I work for Citi. Just question, Glenn, on the tax considerations for the sales. I think back to last year and the acquisitions were driven, in part, by the tax beings that you had that you couldn't shelter through your dividend. Obviously, $900 million is a lot more sales relative to last year. How are you managing through that for '18? And is there a special dividend potentially in the cards if you can't shelter? It doesn't seem like you're buying anything this year.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

It's a good question, Michael. We've done a lot of analysis about the tax position and where we are relative to the dividend. And we feel comfortable today that we can actually absorb all the gains. Again, if you look at the composition of our dividend last year, we did a lot of 1031 exchanges, so you wound up with a component of the dividend being returned capital, like 40%. So without having any acquisitions or very minimal level of acquisitions and no 1031s, you're going to see a very different composition of what the dividends will look like, being ordinary in capital gain. We feel -- we don't think we would need a special dividend. We think we can absorb it.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

But you're already paying out well above the minimum relative to ordinary, so you have room effectively to be able to cover increased capital gain without the need for a special.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Correct, yes.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

And then just thinking about asset sales, and I recognize a big push here is to create a portfolio that you want going forward. Have you considered at all sort of selling interests in some of your higher-quality assets -- the -- effectively, like the stuff you just bought in Jantzen and Whittwood or re-joint venturing Dania once you complete the development? And I recognize you've done a lot to simplify the company. Joint ventures are down to 10%, 13%-ish of your company now. But I just didn't know whether that would be an avenue to sort of highlight value across the board in terms of more representative of your portfolio in selling interest in some of those better quality assets and also have less dilution from being able to raise capital at arguably much lower cap rates.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Yes. Michael, I think that's a very good point. I mean, we have looked at that. And as I said before, we do have 3 very large partners, Canadian Pension Plan, Prudential and New York Common, that will continue to want to do business with us. So we'll look at that and see if we can continue to -- as a way to access cheaper cost of capital, I think we could potentially look at that going forward. Again, if our cost of capital doesn't come back, we have that as an arrow in our quiver. So it's something that we're looking at as a potential opportunity.

Operator

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

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR and Strategy*

Thank you for participating in our call today. I'm available to answer any follow-up questions you may have. I hope you enjoy the rest of the day.

Operator

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