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KIM - Q2 2013 Kimco Realty Corporation Earnings Conference Call

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OVERVIEW:

KIM reported 2Q13 headline FFO per diluted share of \$0.35 and FFO as adjusted per diluted share of \$0.35. Expects 2013 FFO as adjusted per diluted share to be \$1.31-1.33.



CORPORATE PARTICIPANTS

David Bujnicki *Kimco Realty Corp - VP IR and Corporate Communications*

Dave Henry *Kimco Realty Corp - President and CEO*

Glenn Cohen *Kimco Realty Corp - CFO*

Conor Flynn *Kimco Realty Corp - COO*

Milton Cooper *Kimco Realty Corp - Executive Chairman*

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Christy McElroy *UBS - Analyst*

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PRESENTATION

Operator

Good morning and welcome to the Kimco second-quarter 2013 earnings conference call. All participants will be in listen-only mode.

(Operator Instructions)

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

(Operator Instructions)

Please note this event is being recorded. I would now like to turn the conference over to Mr. David Bujnicki, Vice President of Investor Relations and Corporate Communications. Please go ahead, sir.

David Bujnicki - *Kimco Realty Corp - VP IR and Corporate Communications*

Thanks Yusef. Thank you all for joining Kimco's second-quarter 2013 earnings call. With me on the call this morning are Milton Cooper, our Executive Chairman; Dave Henry, President and Chief Executive Officer; Glenn Cohen, our Chief Financial Officer; Conor Flynn, our 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 statements. 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. Reconciliations of these non-GAAP financial measures are available on our website.

And finally, during the Q&A portion of the call, we request that you respect the limit of one question so all of our callers have an opportunity to speak with Management. If you have additional questions, please rejoin the queue. With that, I will now turn the call over to Dave Henry.

Dave Henry - Kimco Realty Corp - President and CEO

Good morning, and thank you for joining us today. We are pleased to report a very strong and eventful second quarter. In addition to solid financial results, we made excellent progress on many of our long-standing key goals and objectives.

First, let me officially welcome and introduce Conor Flynn, our Chief Operating Officer. To those on the call who may not have met Conor over the years, Conor has now passed his 10-year anniversary with Kimco in a wide variety of regional operating roles most recently as President of the western region. Conor brings to the senior team a wealth of field experience, including leasing, property management, construction, asset management, re-development, acquisitions, and dispositions.

Conor is a proven Manager and leader. And we are very happy to have him join us here in new Hyde Park. Giving up sunny, seasonal, and exotic San Francisco to relocate to New York, shows Conor's dedication and commitment to Kimco. I encourage everyone who has not met Conor to spend some time with him as opportunities arise at industry events, analyst road shows, or property tours.

Glenn will provide financial details for the quarter this morning. But in general, we are very pleased across the board in terms of exceeding our income projections and delivering very strong operating metrics. Overall, our industry maintains its quarter-by-quarter recovery. Retailers continue to grow their expansion plans, and coupled with a 35-year low in new supply, effective rents are moving up materially.

Consumer spending and retail sales are also doing well, despite the sequester and the beginning of rising interest rates. The annual ICSC meeting in late May in Las Vegas was very positive, with attendance up significantly, and a net increase of 100 exhibitors in the convention hall. Planned new store openings continue at a five-year high and most retailers remain optimistic about 2013.

In retrospect and with full credit to Glenn, our timing on our \$350 million, 10-year bond was wonderful. And we were also very happy with the seven-year, \$200 million Canadian bond we issued two weeks ago. The new Kimco bonds, together with last year's preferred stock offerings, and our steady stream of mortgage refinancings, have created substantial interest rate savings for years to come.

During the quarter, we also achieved several important milestones. Permit us a small celebratory dance as we note the final closing of the InTown sale, which together with a large number of other nonretail property sales, results in a current total of nonretail assets of approximately \$180 million, representing approximately 1.5% of our total assets. We truly believe that the nonretail aspect of the Company is now almost completely behind us. And our energies can be totally focused on delivering strong operating metrics, and significant improvements in the demographics and profile of our high-quality retail property portfolio.

We are committed to continuing our recycling efforts, where by low quality, secondary market assets will be sold and replaced with high-quality properties in our core primary markets. Our score card to date, selling 121 properties since September, 2010, totaling approximately \$900 million, while concurrently adding 66 properties, totaling approximately \$1.5 billion, reflects our commitment to this ongoing program to upgrade our portfolio.

With respect to Latin America, we closed on the previously announced sale of Kimco's interest in a portfolio of nine shopping centers in Mexico, for a gross sales price of \$274 million. In addition, the pending sale of our industrial portfolio in Mexico to Terrafina for \$600 million remains on track, with Terrafina shareholders voting to approve the transaction on June 17. As a final note, we also sold our interest in 9 of our 16 South American properties last week to Patio, our primary operating partner in Chile, for a gross sales price of \$50.2 million, which includes existing debt of \$35 million, and a solid gain. We anticipate the remaining seven South American assets will be sold by year end, five of which are currently under agreement.

The second quarter was also noteworthy with respect to the purchase of a number of properties and joint venture equity interest from existing institutional partners. The previously announced purchase of UBS Wealth Management's equity interest by a new Blackstone Kimco joint venture was completed based on a gross purchase price of \$1.1 billion, and a nice accretive cap rate.



During the quarter, we also acquired essentially full ownership of two large properties, marketplace at Factoria and Canyon Square Plaza from our existing joint venture partners for a gross purchase price of \$146 million, while also increasing our ownership stake in both the Kimco Income REIT here, and the Kimco Income Fund, KIF.

As Milton has noted before, our large joint venture portfolio represents a reservoir of opportunities to acquire high-quality properties on a negotiated basis, whereby we benefit from having managed and leased the properties for many years and being able to easily assume any existing debt. Now I would like to turn to Glenn to discuss the financial details for the quarter, to be followed by Conor's in depth discussion of our US portfolio results, and then Milton will, as usual, bat cleanup with several general observations and trends.

Glenn Cohen - Kimco Realty Corp - CFO

Thanks, Dave. And good morning. Our positive second-quarter results are a continuation and testament to the strategy we articulated and have been executing since our 2010 Investor Day. The quarterly results are highlighted by solid operating metrics, the monetization of the nonretail assets, and further capital recycling. We have used the proceeds toward the acquisition of higher-quality assets and joint venture interests. In addition, we continue to reduce our cost of capital and maintain a strong balance sheet with excellent liquidity and access to capital.

Let me provide some detail around the quarter. As a reminder, we continue to use the term FFO as adjusted to represent recurring FFO, which excludes transactional income and expense, and nonoperating impairments. Headline FFO represents the official NAREIT definition.

As we reported last night, headline FFO and FFO as adjusted came in at \$0.35 each per diluted share, up from \$0.34 for headline FFO last year, and \$0.31 for FFO as adjusted last year, representing a 12.9% increase for FFO as adjusted. Headline FFO includes impairments of \$15 million, related to undeveloped land under contract, and \$15 million of transaction income, including marketable security gains. The drivers of the FFO as adjusted growth are primarily attributable to a \$7.7 million increase in NOI at the property operating level, and reduced debt and preferred stock cost of \$7.6 million compared to last year.

The operating team delivered strong operating metrics. US occupancy increased 60 basis points, bringing it to 93.9%. And combined occupancy reached 93.7%, a 40 basis point increase from last year. Our US leasing spreads were 16.7%, with new leases coming in at 28%, and renewals and options at 13.7% for the quarter. Our US same-site NOI growth was 4.2%, and combined same-site NOI growth, which includes Canada and Latin America was 4%, representing the highest levels in the past six years. This solid performance is the result of our continued effort to upgrade the portfolio through our capital recycling program.

Since mid 2010, we have sold 121 properties with an occupancy of 85% and an average base rent of \$8.72, and replaced it with 66 assets with an occupancy of 95.7% and an average base run of \$14.28, in key markets with population levels 20% higher and income levels 30% higher. We have also benefited from a portfolio that has hundreds of leases that are over 20 years old, with below market rents, and an improving economy during a period of minimal new development. We have focused on the review of each asset, and where we perceive significant risk, we will market those assets using the proceeds for future acquisitions of wholly-owned properties and joint venture interests for properties which we already manage.

With regard to capital recycling, we sold 20 shopping center assets, of which 9 were in Mexico, generating proceeds to the Company of approximately \$125 million. We recognized \$39 million of non-FFO gains on the sale, offset by impairments of \$16 million. Subsequent to quarter end, we sold nine assets in Chile, leaving us just seven assets remaining in South America.

As for the monetization of nonretail assets we are just about done. With the sale of InTown Suites and other nonretail investments during the second quarter providing proceeds of \$177 million, and the sale of two urban assets and certain nonretail preferred equity investments after quarter end for an additional proceeds of \$40 million, the remaining nonretail book value is down to approximately \$180 million. We recognize approximately \$36 million of impairments on the sale of the urban office properties. We are working on the sale of another \$100 million of nonretail assets by the end of the year, and as Dave mentioned, with that, the discussion of nonretail will beat the street.

We have been very proactive on the right side of the balance sheet as well. In May, we tapped the US bond market, raising \$350 million at a coupon of 3.125% for 10-year money, and then in July, we executed a \$200 million, 7-year Canadian denominated bond at 3.855%. The proceeds from these issuances were ear-marked to repay significantly higher coupon debt, including a \$100 million bond at 6.125%, a \$75 million bond at 4.7%, an upcoming \$100 million bond at 5.19%, and mortgage debt with a weighted average of just under 6%. The Canadian proceeds will be used to repay a 5.18%, \$200 million bond in August. These transactions coupled with the significant cost savings generated from the \$635 million of perpetual preferred stock redeemed last year and replaced with lower coupon preferreds, has provided a portion of the FFO growth.



Our liquidity position remains in excellent shape with over \$1.6 billion of immediate liquidity available, and less than \$150 million of debt maturing for the balance of the year. We remain committed to our BBB+ Baa1 investment grade ratings, and expect to continue to operate with a consolidated net debt to recurring EBITDA between 5.5 times and 6 times, currently at 5.8, and a fixed charge coverage of at least 2.5 times, currently 2.9.

We are pleased to report that based on the strong first-half performance, we are raising our FFO as adjusted per share guidance to \$1.31 to \$1.33 from the previous guidance range level of \$1.29 to \$1.33. Please remember, our guidance does not include transactional income or expense, but does include the loss of income from InTown, which was quite profitable. Using the midpoint of \$1.32 would represent a 4.8% increase over last year. The guidance estimate incorporates the sale of InTown as I just mentioned, which has a diluted impact of approximately \$5 million per quarter, or \$0.025 for the balance of 2013, and the benefits of all of our refinancing activity.

In addition, we have increased our forecast for same-site NOI growth to a range of 3% to 4%, up 50 basis points from the original estimate of 2.5% to 3.5%. It is worth noting that since 2010, we have successfully grown our FFO as adjusted per share each year, as we executed a significant recycling program, which has yielded a stronger, higher-quality portfolio, exited nonretail assets, and significantly improved our balance sheet metrics. And now I will turn it over to Conor for his inaugural earnings call as COO to discuss the shopping center portfolio.

Conor Flynn - Kimco Realty Corp - COO

Thanks, Glenn. I would like to thank Milton, Dave, and the Board of Directors, for the opportunity and confidence that they have placed in me. Our second-quarter portfolio performance is not only indicative of the solid market fundamentals in our sector, but also highlights our successful efforts to improve our portfolio and previews where we are headed in the future.

We have improved the quality of our portfolio by focusing on three major initiatives. The first, actively managing the core portfolio, and exiting out of investments that have significant risk. Second, reinvesting in our high-quality assets, as we continue to see double-digit returns through re-development efforts that will enhance and reposition our portfolio for a long term stability and growth. And third, investing in our core markets that have significant barriers to entry with above-average growth.

US same-site NOI growth of 4.2% was fueled from leases signed with high-quality retailers. Also contributing to the growth were healthy contractual rent increases and improved overall credit loss across the portfolio. The 4.2% same-site NOI growth in the US is the highest reported since Q3 2007, and is the 13th consecutive quarter of positive same-site growth.

Notable rent commencements include two Walmarts, a Target, three leases with TJX, two Weis Markets, two Michaels, five Ultras, a Kohl's, a Bed Bath and Beyond, a CVS, a Giant, a Trader Joe's, a Whole Foods, and a Nordstrom Rack. Our leasing and asset management team continues to focus on adding best-in-class retailers who in turn improve the portfolio quality.

We signed 185 new leases for a total of 698,000 gross square feet, bringing the overall square occupancy levels up 40 basis points higher than one year ago for both gross and pro rata share. In the US, pro rata occupancy increased by 60 basis points from a year ago. On a US same-site basis, occupancy rose 30 basis points pro rata, mainly due to positive absorption.

Second quarter versus third quarter, our overall occupancy was up 10 basis points pro rata and gross. Anchor occupancy was up 20 basis points to 97%. Small shop occupancy was up 30 basis points to 84.3%, 100 basis point increase from the second quarter of 2012, which demonstrates the improving health of our small shops. However, activity in the small shops is still primarily driven by national small shop operators, regional players, and franchisees. So there is still work to be done, and thus, opportunity to improve.

Our new leasing spreads of 28%, was attributed to positive spreads on every single lease signed above 5,000 square feet. Other highlights included a new lease set of re-developments projects in Fairview Heights, Illinois, where we were replacing a 15-year-old K-Mart with a 28,000 square foot Fresh Time Farmer's Market. In addition, we signed two new leases with Ulta, and Hobby Lobby signed a new lease this quarter to replace a former Syms in Miami, Florida.

Renewals and options leasing spreads posted a 13.7% increase, our highest ever, which included a 40-year-old Kohl's lease that expired in Salem, New Hampshire, that was paying \$1.47 and renewed at \$13 a foot. Overall leasing spreads in the US increased 16.7%, and have now been positive for 10 straight quarters.

The re-development pipeline is my passion project and is now a focal point for future growth. During the quarter, we toured over 100 assets, and I am excited by what I saw and the opportunities that are imbedded in our portfolio. We have added significant projects for the future value creation in every region. 19 projects became active this quarter, with a total cost of \$30 million, and a targeted ROI of over 10%. Anchors driving these projects include Walmart, Bass Pro, CVS, Burlington Coat, LA



Fitness, Pet Smart, Ulta, and Dollar Tree. We now have \$165 million in active projects, \$179 million in the planning stage, and have identified another \$460 million of future re-development projects that are now under evaluation.

20 new leases were signed this quarter that were either combining space or splitting boxes for new retailers, which make up the lion's share of our new deal costs. Re-developments produced a strong return on invested capital, in addition to higher residual values that are harder to quantify. The dynamic new retailer can drive traffic to the asset, or increase the frequency of visits and have a trickle down effect on the surrounding tenants. A re-development creates a more attractive and safer environment that brings down operational expenses, as a result of improvements in site lighting, waste management, solar energy, and other technologies that decrease retailer's total occupancy costs. We are mining Kimco's large portfolio for opportunities like these, small and large.

Our best-in-class operations team allows us to differentiate ourselves from our peers and provide both shoppers and retailers with more tools to be successful. Our focus on technology, sustainability, and creativity inspires us to push the envelope and to look at our properties and ask what more can we do? We have been working on unlocking new sources of revenue by developing a national ancillary income strategy focusing on revenue-based advertising, kiosks, and vending programs. We are looking to expand our solar program and other tenant energy services, and build out wifi networks and web portals that would enhance the tenant and shopper experience.

We are reducing occupancy costs by investing in lighting technology that will cut common area spending. We are streamlining utility management bill processing, and enhancing mobile tools for property managers. So they can now snap a photo with their iPad and send it directly from the site to a qualified vendor, and quickly receive a bid, reducing paperwork and expediting repairs from the field. These are just a few things we are working on, as our scale allows us to be creative with pilot programs, when if successful, are then expanded nationally.

Dave mentioned our acquisition activity in the second quarter, which continues to reflect prudent use of our capital, by purchasing partnership interests in assets that we have lived and breathed for a number of years. On the dispositions front, we sold 11 properties in Q2, for a gross sales price of \$71.6 million, at an implied cap rate of 7.7%.

We are taking a fresh look at our disposition list, and are now taking it a step further and focusing on inherent risks at the property level. We have had 3 more closings since the end of the quarter, with another 16 properties under contract. Actively managing the portfolio, anticipating risk, and predicting the shift in demographics and retail nodes will continue to shape the portfolio. And I will now turn it over to Milton for his closing remarks.

Milton Cooper - Kimco Realty Corp - Executive Chairman

Well, thanks, Conor. Our entire Management team is excited about their interaction with Conor. His enthusiasm for real estate and his creative energy to enhance value through re-developments is absolutely contagious. Conor's passion is re-develop, re-develop, re-develop, and I think it is a great menu. When a center can be expanded at double-digit returns, it is not only a superb use of capital, but it increases traffic and enhances the value of the existing center. We have almost 900 properties that will provide Conor with a wonderful canvas to work with.

Now, having said that, our portfolio has undergone a dramatic transformation. When Kimco first started back in 1958, we were acquirers. The strategy was that whatever we owned would over time substantially increase in value as the country grew, suburbs grew, inflation grew, et cetera, et cetera. So by way of habit, we were acquirers. And accumulated large portfolios from both public and private companies.

Over the past three years, we have kicked the habit, and our strategy has been much more refined. We have been selling where we perceive risk, and we buy higher-quality properties with growing cash flows. And we have started to see the benefits of this strategy in our mix.

I would like to also give you my thoughts on valuations. When a common stock or any security is bought, its multiple depends to a great extent on future growth for the business. When a property is acquired, there is an [argus run] for 5 or 10 years, and the cap rate depends upon the growth and future rental streams. And it follows that a portfolio should be similarly valued.

Our portfolio has had 13 straight quarters of increases in same-store growth, and so far this year, our same-store growth has been outstanding. And we believe we can continue to deliver strong recurring growth into the foreseeable future, and hence, an increased valuation.

Now additionally, we have always had an opportunistic [bet] by creating values that are opportunities with retailers, with strong real estate, referred to as our plus business. Our plus business has created substantial value and profits that can be reinvested into high-quality shopping centers with recurring income. In this connection, we are pleased with the results of super value and confident that the new Management will increase the value of almost 8.2 million shares that we acquired in March.



We are excited. We are motivated. And we are moving forward to our goal of being a world-class retail REIT with growing cash flows and growing dividends. And now, we would be delighted to answer any questions.

David Bujnicki - Kimco Realty Corp - VP IR and Corporate Communications

Yusef, we're ready for the Q&A portion of the call.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question comes from Christy McElroy with UBS. Please go ahead.

Christy McElroy - UBS - Analyst

Hi, guys. Glenn, can you discuss what your bond issue might have looked like if done today from a pricing standpoint? And can you provide some sort of general comments around the changes you've seen in the financing markets over the last two months, and whether or not you've seen any impact on private market transaction pricing? I know there is a couple of questions in there.

Glenn Cohen - Kimco Realty Corp - CFO

Sure, Christy. Well certainly, the one big difference for sure is just look at the base treasury rate. When we did our bonds, we issued when the 10-year treasury was 1.96, and now you're looking at basically a 2.60 treasury. And spreads have definitely widened out a little bit. Our spread on that deal was 1.25 over. Today we'd probably be around 1.40, 1.45. And if you asked me that two weeks ago, I would probably tell you it was about 1.60.

So markets move pretty quickly on that side of the world. But it is definitely gotten better. And you're seeing more traction. But rates are holding and coupons are definitely higher. The Canadian bond is a different -- it is a different market. It is a smaller market there. Those are done as private placement deals. So again, we feel pretty good about what we were able to do. That market is probably around the same where it is today. So we are probably on a seven-year deal, somewhere around 1.80 over.

And as far as it relates to transactions, we really haven't seen a drop-off in transactions because of it. We still have a pretty widespread between really where 10-year treasuries are and cap rates from a historic basis, so it really hasn't slowed things down. The CMBS market is open. The bank market is open. The bond market is open. So for right now, it looks pretty healthy to be able to conduct and to transact.

Christy McElroy - UBS - Analyst

Thanks.

Operator

Our next question comes from Craig Schmidt with Bank of America. Please go ahead.

Craig Schmidt - BofA Merrill Lynch - Analyst



Thank you. While I recognize you're never done with the culling of the portfolio, I wonder where you think you stand with the recycling of the retail portfolio at this point?

Glenn Cohen - Kimco Realty Corp - CFO

Craig, I mean again, it is something that we continue to look at. Conor and I have -- in his two months here, we've spent a lot of time looking at the list, working through it, and making further decisions about it. There definitely is more we want to sell but the amount of ABR that those assets make up, it is getting to a level point where it is pretty modest, the assets are smaller. But are you going to continue to see us sell assets, and I think as you look out two, three, four, five years, it has just become part of the fabric of the business.

We are going to continue to analyze where properties in our view have risk, and if we see a declining NOI in the future, or where the population growth is going the wrong way, you are going to see us market those assets. It is just a different view and a different look at how we view the portfolio today.

Conor Flynn - Kimco Realty Corp - COO

I would agree. I think that actively managing the portfolio is something that has just become a fabric of our Company. Going forward we're just going to continue to take a look at the shifts in retail node, the shifts in demographics, and continue to analyze each and every site individually, and look to see if it is opportunistic to exit.

Craig Schmidt - BofA Merrill Lynch - Analyst

I'm just wondering, I sort of got a sense that we may be shifting into a little bit heavier re-development mode as opposed to a buying and selling mode. But thanks for the feedback.

Conor Flynn - Kimco Realty Corp - COO

That is accurate. I think we're definitely -- you're going to see a shift much more into reinvesting in our properties, and taking the funds that we can generate from our dispositions and reinvesting into our existing portfolio, and the re-development pipeline.

Dave Henry - Kimco Realty Corp - President and CEO

Craig, we basically concluded there is two wonderful ways to invest capital. One is in re-development, where it is so accretive. And so incremental to our earnings. And secondly, buying out joint venture partners, because we're able to achieve better-than-average cap rates on those acquisitions, because we're buying partial interest, we can assume the debt, there is no broker, it is negotiated offmarket, and so forth. So both of those are wonderful places for us to invest capital, and that's where we've been concentrating.

Operator

Our next question comes from Samit Parikh with ISI. Please go ahead.

Samit Parikh - ISI Group - Analyst

Good morning, everyone. David, could you just sort of remind us what is left now in Latin American? You said you sold, subsequent to the quarter you sold nine assets in Chile, so there's seven left there. And what the value you believe of the I guess remaining retail assets there are in Mexico as well, and sort of what your thought process is in terms of the timing of probably disposing of those assets going forward.

Dave Henry - Kimco Realty Corp - President and CEO



Let me take it in the two pieces. We're definitely committed to exit in whole in South America. And of those seven remaining assets, five are essentially spoken to. The two in Brazil are still formally on the market and being marketed by Brookfield. But we think we're close on them.

The biggest asset we have in South America remains our multi-story mall in Vina Del Mar, and we have a tentative deal on that, and that should happen over the next couple months. So that will essentially clean up South America.

Mexico, the market continues to be wide open in terms of the acquisition appetite by the FIBRAs, or the Mexican REIT, both existing FIBRAs and FIBRA wannabes I guess I would say. And we continue to get some nice offers on the remaining properties we have, which are roughly, depending on how you count, maybe 35 shopping centers plus some net leased properties, plus we have our Kimco land fund, we've got a one-off industrial property still that wasn't included in the Terrafina sale, so we've got some multiple stuff down there.

So we are looking at offers on those. We have not signed any agreements on those, in terms of contracts, but it remains an intriguing window of opportunity to sell Mexico assets at cap rates quite frankly we didn't think we would see on an exit.

Samit Parikh - ISI Group - Analyst

Okay, thanks.

Operator

Our next question comes from Jeffrey Donnelly with Wells Fargo. Please go ahead.

Jeffrey Donnelly - Wells Fargo Securities, LLC - Analyst

Good morning, guys. Maybe this is a follow-up to Craig's question, but as Milton said, Conor, you have a pretty big canvas to be looking at and I guess just in the US you have I think about 70 million square feet of retail space and 70% of that is in your top 40 metros. And I know you're focused, or I guess I should say you seem focused now on being better rather than bigger.

And when you think though three to five years forward, do you expect to see similar metrics for Kimco's portfolio? I mean will they will be equivalently sized or equivalently concentrated, or do you expect to change that mix over the next three to five years?

Conor Flynn - Kimco Realty Corp - COO

I think are you going to see us continue to look to acquire larger assets that have more meat on the bone, as we like to say, or more re-development opportunities. Those really, when you have the acreage involved, in a site that is quite large, you have a lot more opportunity to focus on creating value on the property.

I think you will still see us selling out of some of our smaller tertiary markets, and looking to invest in high-quality properties in our core markets, and with the constant analysis towards value creation. So I think going forward, we may not change in GLA, but our site count may change. But as a focus of towards the larger assets with higher potential for re-developments.

Jeffrey Donnelly - Wells Fargo Securities, LLC - Analyst

And put differently, you could be substantially smaller than being in 40-plus metros?

Conor Flynn - Kimco Realty Corp - COO

I think that is accurate.



Glenn Cohen - Kimco Realty Corp - CFO

Jeff, this is Glenn. I would say we plan to maintain our national presence. That is something that is very important to us. So you may see us shrink some of the markets that we're in, but the national presence and the diversity and tenant mix that we offer, we think is a real differentiator for us. So we don't expect that to change.

Dave Henry - Kimco Realty Corp - President and CEO

It is all within the context of upgrading the portfolio, how it is going to be higher and higher quality over time.

Jeffrey Donnelly - Wells Fargo Securities, LLC - Analyst

Thank you.

Operator

Our next question comes from Cedrik Lachance with Green Street Advisors. Please go ahead.

Cedrik Lachance - Green Street Advisors - Analyst

Good morning. I just want to follow up actually on that question. So the national presence being important to you guys, can you be specific, I guess, in describing what you see as the benefits of the large national presence, versus what would be the benefits of being more concentrated into let's say a dozen markets?

Milton Cooper - Kimco Realty Corp - Executive Chairman

Cedric, it is Milton. I am going to take a shot. It is a good question. And let me say first from my perspective, national diversified portfolio both geographically by tenant, mitigates risk. In my mind, it gives to me a measure of safety from a point of view of what may happen in a particular market.

But most important, the national platform helps business in this sense. If a retailer wants to -- if a foreign retailer wants to come to the United States, interested in non-mall locations, what a better place to start than Kimco. And it also is an advantage, Cedric, to our plus business, because when retailers have issues and come and we have, in the super value, in the all of the Save-A-Lots, we're being compensated and we get opportunities nationally. So the national platform is in a wonderful advantage in that connection, Cedric.

Conor Flynn - Kimco Realty Corp - COO

I would just add that on our portfolio reviews with our retailers, we are really focused on the regional players that are looking to become national, Sprouts Farmer's Market is a good example, where they started out west and are now growing nationally, and we can offer -- and we can show them an opportunity list that is really unmatched by our peers. And we're the largest landlord for a lot of these tenants as well, so that becomes opportunistic when we're going through renewals or looking for opportunities for these retailers.

Cedrik Lachance - Green Street Advisors - Analyst

Thank you.

Operator

Our next question comes from Wes Golladay with RBC Capital Markets. Please go ahead.



Wes Golladay - *RBC Capital Markets - Analyst*

Good morning, everyone. Kimco has been very active buying centers from the joint venture partners. Can you comment on how big of an opportunity this will be going forward?

Dave Henry - *Kimco Realty Corp - President and CEO*

Well, we still manage a combined portfolio of almost \$10 billion, of which about 60% is held by all kind of the third parties. We probably have two dozen institutional and other partners remaining. Some of which have indicated an interest to dispose of their interest. So we continue to have discussions.

I would say UBS was particularly large, so I don't anticipate or we don't anticipate a very large one like that. But we are in discussions with some of the moderate-size partners, and we hope to bring them to fruition in the near future. And as I said, it is probably next to the re-development, number two, on what we want to do. So we're being very pro active in this.

Wes Golladay - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

Our next question comes from Brandon Cheatham with SunTrust. Please go ahead.

Brandon Cheatham - *SunTrust Robinson Humphrey - Analyst*

Good morning. It is Brandon Cheatham. I also have Ki Bin Kim on the line. I just was wondering if you guys could comment real quick with the rise in interest rates how that has changed valuations, and specifically if you can break out any differentiation between the high-quality assets that you guys are looking to purchase, versus the local ones that you are looking to sell?

Milton Cooper - *Kimco Realty Corp - Executive Chairman*

The first metric that you have to look at is the difference between buying a bond 10-year treasury and an income-producing piece of real estate. The major difference is that with inflation, at the end of 10 years, the purchaser of the bond is lucky to have purchasing power of maybe 60%. In a shopping center, you not only have a growing asset, but residual values are higher.

And historically, while there is a direct connection between cap rates and interest rates, there are limits. There was a time when the prime rate was 21%. Treasuries were double digits. But during that time, cap rates did not go above 10%. So they have been kept in a band that is much narrower than the fluctuation of interest rates.

And you have in addition, benefits, a portion of your cash flow when buying real estate assets, a tax-free by way of depreciation. So that historically, while there is a connection, it is not a direct connection.

Dave Henry - *Kimco Realty Corp - President and CEO*

And I would also add there remains fierce competition for the, A, the prime-quality assets out there. The Eastdil's of the world have seen no real slow down in the competitive bidding for the very high-quality assets in primary markets, and those cap rates have definitely continued to be less than 6% for many of those high-quality assets.

Also, the general trend towards favorable pricing for even the B assets continues. There is just more money chasing these B assets because there has been frustration out there that people can't acquire the A assets. So the cap rates have continued to drift down into the B category.



So as a very general comment, I would say stuff we sold that was clearly B or B minus stuff a couple of years ago, were in the 9%, now they're in the 7%, and we haven't seen that back up at all.

Brandon Cheatham - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Our next question comes from Nathan Isbee with Stifel. Please go ahead.

Nathan Isbee - *Stifel Nicolaus - Analyst*

Hi, good morning.

Dave Henry - *Kimco Realty Corp - President and CEO*

Good morning.

Nathan Isbee - *Stifel Nicolaus - Analyst*

You have had some success over the last year or so, it seems, it is becoming more regular, pulling some of these older leases out of the bag with well below market rents that you have been able to redo at much higher rents, and you have made reference to the 1,000 leases in your portfolio that are older than 20 years. Can you stratify perhaps as we look out over the next few years how many of them potentially are coming due, just to give a sense of what type of growth it could provide to the portfolio beyond just the favorable macro momentum?

Glenn Cohen - *Kimco Realty Corp - CFO*

Nate, it is a little tough, because many of them have options in them. So it really depends on when they're exercised, whether they're exercised or not exercised, so it is a little bit tough to really pinpoint it specifically.

But we know, and as you've seen, quarter after quarter, we get them. I mean the Kohl's example is a great one. I mean it is a very old lease. And under \$2 a foot. You bring it to market. So it is a real benefit of the aging size of the portfolio.

Milton Cooper - *Kimco Realty Corp - Executive Chairman*

I will go out on a limb and give you one example just to make you feel good. We have a property in the city of New York, it is a 100,000-foot tenant who is paying probably a rent with taxes that is almost flat, zero, or negative, and on that 100,000 feet, I think we will go from zero, negative, just \$20 a foot in 2017. That is the one example I can give you.

Nathan Isbee - *Stifel Nicolaus - Analyst*

Okay. I mean of those 1,000, how many would you say are coming -- don't have any renewal options left?

Conor Flynn - *Kimco Realty Corp - COO*



I think it is about 500. So we're running that analysis and we're digging into the expiration schedules to see where the options are. Some of them have fair market value options or are escalators involved that we can take a deeper dive into. But it's about 500 of the 1,000.

Nathan Isbee - Stifel Nicolaus - Analyst

Thank you.

Operator

Our next question comes from Michael Mueller with JPMorgan. Please go ahead.

Michael Mueller - JPMorgan Chase & Co. - Analyst

Yes, hi, if we're thinking about the nonretail asset sales which are wrapping up, what you're doing in Mexico, and just the noncore US properties, and then kind of match that up against what you're doing with the JV buyouts, third-party acquisitions, on a look forward basis, does it feel like you're going to be a net acquirer going forward for the balance of the year and say 2014?

Glenn Cohen - Kimco Realty Corp - CFO

Well, I would say for the balance of the year, we're probably going to be a net seller, if it all comes out the way we think it will. Coming into 2014, we will give you a better feel for it, probably on the next call, but my guess is, you probably will be a net acquirer, somewhat in 2014.

But it is going to -- be about us looking at assets that aren't just based on what that initial cap rate is. It is really about where we see growth and opportunity in those assets. You're not going to see us buying large, large portfolios of assets, that we think have issues with them. It is really, we're going to be very, very judicious and careful and disciplined about what we're acquiring.

Dave Henry - Kimco Realty Corp - President and CEO

That said, I would add, besides ramping up the re-development, which takes capital and proactively trying to buy out partners, we continue to have opportunities to buy assets in the marketplace, some of which are intriguing to us, and some of these we may be able to negotiate offmarket. So I am a little more optimistic on the acquisition side, given our history and our nature, so I would say we will probably be at least even this year. But we will see.

Milton Cooper - Kimco Realty Corp - Executive Chairman

Well, if you take Conor's passion, he has outlined over time \$750 million of re-developments at double-digit yields. Now, that over time orders a very healthy increase in our yields and in our flows.

Michael Mueller - JPMorgan Chase & Co. - Analyst

Okay. Thanks.

Operator

Our next question is a follow-up question with Samit Parikh with ISI. Please go ahead.

Samit Parikh - ISI Group - Analyst



Dave, I just wanted to ask the question on the low market leases in a different way. In your opening remarks you said 35-year low in supply effective rents moving up, your trailing 12 month blended spreads in the US are around 10%, which really isn't that far off from the 2005, 2006 days. So given that you have been saying that you don't expect much supply to come on in the next few years, do you think blended rent spreads over the next two, three years for Kimco should surpass the prior peak?

Dave Henry - Kimco Realty Corp - President and CEO

It could well. I personally continue to be fascinated by this lack of new supply. Historically, on average, roughly 100,000 shopping centers out there in the US, there has been a new supply of about 2%. Today, we're at a run rate of 0.1%. And it is not expected to increase substantially above that level for several years. The old days of buying 50 to 100 acres and going through years of entitlements and environmental fights and then preleasing and then getting construction financing, we just don't see that coming back any time soon.

So although we're all looking at second phases and some re-development, it is still not material in terms of substantially increasing the supply of space. So couple that with a five-year high of retailers opening up stores, 80,000 new stores are going to open up over the next two years, so that is really quite amazing demand that we can work with.

So we're optimistic that the industry is healthy. We're definitely on the recovery track. We're of course subject to the very high-level macro events because we're all about consumer spending and consumer confidence. But that said, the fundamental supply versus demand is shifting back in our favor, after a very rough three or four years.

Operator

Yes, our next question is also a follow-up question with Jeffrey Donnelly with Wells Fargo. Please go ahead.

Jeffrey Donnelly - Wells Fargo Securities, LLC - Analyst

The first part is I always find the same-store NOI and rent spreads don't necessarily translate down to FFO as I guess I would expect. Can you tell us how much of your portfolio the same-store NOI metric applies to and maybe perhaps in broad strokes how that is calculated for NOI and leasing spreads.

Glenn Cohen - Kimco Realty Corp - CFO

From a leasing spread standpoint, it is a little tough because it depends on when the rent commences, so signing a new lease and having it commence is a different time period than what is imbedded in your same site NOI number, because the same-site NOI number is a cash basis.

Jeffrey Donnelly - Wells Fargo Securities, LLC - Analyst

Right.

Glenn Cohen - Kimco Realty Corp - CFO

But if you look at our same-site NOI growth it is roughly, I don't know, I think the same-site NOI was up about \$7 million. We do it, we have a disclosure of which breaks down the dollars, so maybe that can help you with your model.

Jeffrey Donnelly - Wells Fargo Securities, LLC - Analyst

Okay. Yes, I will dig into that a little deeper. And maybe as a follow-up, when you look at leasing spreads and I guess this is a question of whether or not it is possible, Glenn, when you guy do the comparisons for example on the trailing four quarters on new leasing spreads in the US, I think the numbers are new rents are 18% and the prior rents are 14%, are you able to unearth what the TIs were on the previous deal?



And the reason I ask is just because if we amortize in the TIs on the current deal it is about \$4 a square feet. So if you look at it is as an economic rent versus the prior rent, it would almost appear flat, and I think probably a more interesting analysis would be kind of net of TIs.

Glenn Cohen - Kimco Realty Corp - CFO

What we haven't done -- we really haven't done that, Jeff. If that is something that could help you, I'm sure Dave Bujnicki could go over some of the details with you after the call.

Dave Henry - Kimco Realty Corp - President and CEO

And also if you amortize it over the initial base term, yes, you can get a little nervous about that. But most of these have options built in, and so a reasonable way to look at that is to amortize those TIs over a much longer period of time.

Jeffrey Donnelly - Wells Fargo Securities, LLC - Analyst

Okay. Thanks, guys.

Operator

(Operator Instructions)

Our next question comes from Christy McElroy with UBS. Another follow-up question.

Christy McElroy - UBS - Analyst

Hey, guys. Conor, just wanted to follow up on your comments on re-development. It sounds like you have identified about \$500 million, Milton mentioned \$750 million of re-development projects, potentially. How does that, sorry if you mentioned this, but how does that break out in terms of what you're expecting for annual re-development spend?

And in your opening remarks you also mentioned some things that sound more like renovation CapEx. So if you could just talk about what you expect to spend in terms of re-development spend and then renovation CapEx. And can you also remind me in your same-store NOI growth, does that include or exclude the impact of re-development?

Conor Flynn - Kimco Realty Corp - COO

It includes it. I will start with the last question. And just going through the re-development pipeline, the projects that were added, which Mr. Cooper referenced earlier, is that we're looking at every single asset, and it can range in size of projects, so the specifics of the ones that became active this quarter, it is an LA Fitness being built on Staten Island, it is a Burlington Coat being built in Florida, it is a relocation and expansion for Ulta Cosmetics. It is a developing of Pet Smart in Puerto Rico. It is down sizing a Best Buy and adding an Ulta. It is splitting boxes. It is also adding outparcels in California. And re-developing and adding significant GLA on a few other properties.

So the range of scope of what you're looking for in a re-development project can vary greatly. And I think on the timing side of it, it can be very lumpy. If you have ever done a rehab project, even in your own house, you know how the timing of it can be very hard to pinpoint. But on our analysis of active projects, we tend to think that those will be assets that we are spending money on currently, that those flows will hit in the one- to three-year period. And then the ones that are in the planning phase will hit in the three- to five-year period. And then the future ones will be 5 to 10 out. So that gives you a little bit of perspective of the timing of it.

Dave Henry - Kimco Realty Corp - President and CEO



I think it is also fair to use Milton's wonderful word, reservoir of opportunities, when you look at our very large portfolio of shopping centers that Conor has taken a hard re-look at, and has found many more re-development prospects than perhaps we found before. So you have seen a rededicated, a re-energized look at this stuff. And it is yielding results.

Christy McElroy - UBS - Analyst

So if I think about in general terms just sort of annual starts and annual spend, I know it is going to be lumpy but over the next few years --

Glenn Cohen - Kimco Realty Corp - CFO

Christy, you probably could expect us to spend somewhere between \$100 million and \$150 million a year.

Christy McElroy - UBS - Analyst

Okay.

Glenn Cohen - Kimco Realty Corp - CFO

And again, depending on how -- to Conor's point it gets a little lumpy, if it is a bigger project, we might spend more, but I think that is at least a target range to start with.

Christy McElroy - UBS - Analyst

That's helpful. Thank you.

Operator

Our next and last question comes from Brandon Cheatham with SunTrust. Please go ahead.

Ki Bin Kim - SunTrust Robinson Humphrey - Analyst

Thanks. This is actually Ki Bin. Just a couple quick cleanup questions. One, what is your small shop occupancy, what was it at the peak on an apples-to-apples basis?

Glenn Cohen - Kimco Realty Corp - CFO

Small shop occupancy, we started only tracking it maybe four or five years ago. We think at its peak it was right around 90%. So that was its peak. Today, we're sitting at around 84.3%. So we feel that there is definitely more upside to come there.

Conor Flynn - Kimco Realty Corp - COO

That's correct. I mean I think you're starting to see the small shop health really improve, even if you look at our spreads on just the small shops, over 60% of them were positive, which is a very unique factor for us, because it has been flat to negative in the past, so we are starting to see that health metric improve.

Ki Bin Kim - SunTrust Robinson Humphrey - Analyst

And so we can model just low-single digit positive, so most of the positive leasing spreads were on the 10,000 square feet and greater space, is that right?



Conor Flynn - Kimco Realty Corp - COO

That's correct.

Ki Bin Kim - SunTrust Robinson Humphrey - Analyst

Okay, and just the last question. You guys have gone through a lot of capital recycling and it seems like you'll probably have more [poltey] to reinvest. How do you -- how does that impact your acquisition parameters? And should we expect that you guys are going to buy more higher-quality, somewhat stabilized assets, or would you actually be willing to take on more [desop] risk or where you can add value on acquisitions?

Dave Henry - Kimco Realty Corp - President and CEO

We do intend to be very disciplined. Just because we have some more money coming in, we're not going to be particularly aggressive. We are disciplined. We do look for properties that have, A: very high-quality, and B: growth imbedded in the asset. And we are looking as best we can for off-market opportunities, where we leverage relationships of Milton's or others, to get those kinds of deals.

And again, we refer you back to the opening where our first place to put capital is into our own properties where we can get wonderfully accretive incremental yields. Secondly, buying out partners where the cap rates are generally above market. And then third, looking for these selective opportunities where there is good growth and very high quality.

Ki Bin Kim - SunTrust Robinson Humphrey - Analyst

All right, thank you, guys.

Operator

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

Dave Bujnicki - Kimco Realty Corp - President and CEO

Thanks, Yusef. And we appreciate everybody that participated on our call today. As a final reminder, our supplemental is posted on our website at Kimcorealty.com. Thank you very much.

Operator

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



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