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KIM - Q1 2014 Kimco Realty Corporation Earnings Conference Call

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OVERVIEW:

KIM reported 1Q14 headline FFO per diluted share of $0.34 and FFO as adjusted per diluted share of $0.34. Expects 2014 FFO as adjusted per share to be $1.36-1.40.

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CORPORATE PARTICIPANTS

David Bujnicki *Kimco Realty Corporation - VP*

Dave Henry *Kimco Realty Corporation - President & CEO*

Glenn Cohen *Kimco Realty Corporation - CFO*

Conor Flynn *Kimco Realty Corporation - COO*

Milton Cooper *Kimco Realty Corporation - Executive Chairman*

Ray Edwards *Kimco Realty Corporation - VP*

CONFERENCE CALL PARTICIPANTS

Christy McElroy *Citi - Analyst*

Craig Schmidt *BofA Merrill Lynch - Analyst*

Paul Morgan *MLV & Co. - Analyst*

Tammy Figue *Wells Fargo Securities - Analyst*

Jason White *Green Street Advisors - Analyst*

Jim Sullivan *Cowen and Company - Analyst*

Rich Moore *RBC Capital Markets - Analyst*

Haendel St. Juste *Morgan Stanley - Analyst*

Andrew Schaffer *Sandler O'Neill & Partners - Analyst*

Mike Mueller *JPMorgan Chase & Co. - Analyst*

Jeremy Metz *UBS - Analyst*

Ki Bin Kim *SunTrust Robinson Humphrey - Analyst*

David Harris *Imperial Capital - Analyst*

Chris Lucas *Capital One Southcoast, Inc. - Analyst*

Nathan Isbee *Stifel Nicolaus - Analyst*

Linda Tsai *Barclays Capital - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Kimco Realty Corporation first quarter 2014 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 Dave Bujnicki, Vice President. Please go ahead.

David Bujnicki - *Kimco Realty Corporation - VP*

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

As a reminder, statements made during the course of this call may be deemed forward looking, and it is important to note that the Company's actual results could differ materially from those projected in such forward-looking statements due to a variety of risks, uncertainties, and other factors. Please refer to the Company's SEC filings that address such factors that could cause actual results to differ materially from those forward-looking statements.

During this presentation, management may make reference to certain non-GAAP financial measures that we believe help investors better understand Kimco's operating results. Examples include, but are not limited to, funds from operations and net operating income. Reconciliation of these non-GAAP financial measures are available on our website. Finally, during the Q&A portion of the call, as previously mentioned, we request that you respect the limit of one question so that all of our callers have an opportunity to speak with management. If you have an additional question, you are welcome to rejoin the queue. With that, I turn the call over to Dave Henry.

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

Good morning, and thank you for calling in this morning. We are happy to report the strong first-quarter results. As usual, Glenn and Conor will provide the details, but overall, our operating metrics continue to be excellent. Led by 153 new leases with an average positive leasing spread of 50.7%, calculated on the comparable new leases. Our terrific leasing spreads, combined with another substantial jump in small shop occupancy, provides solid evidence of the continued improvement and strength embedded in our core portfolio of neighborhood and community shopping centers

Looking at the US shopping center industry overall, consumers are spending again with March consumers spending posting the largest gain in almost five years. Consumer sentiment, as reported by the University of Michigan, also rose in April to a nine-month high. Combined with historically low new retail construction, US population growth is now outpacing the net addition of retail space by 3.5 times and a five-year high of a new planned store openings, effective rents are increasing significantly.

It is also interesting to note that services now represent slightly more than two-thirds of all consumer spending, up from less than 50% in the 1960s and 1970s. This is significant for the neighborhood and community shopping center sector as our properties are all about essential local goods and services. Health clubs, dry cleaners, restaurants, hair salons, urgent care centers, et cetera, are all resistant to the inroads of e-commerce. In addition, 94% of all retail sales still take place in the brick-and-mortar world. And there is an increasing list of online retailers beginning to establish physical stores. Even Amazon has opened short-term pop-up stores and has mentioned the possibility of opening traditional retail and showroom stores if they can be differentiated.

With respect to Kimco's key goals and objectives for the year, we continue to make excellent progress with our disposition activities in Latin America. With the Macquarie Mexican REIT closing in the first quarter, we have now received approximately $500 million in net sales proceeds from Latin America over the past year. We continue to be on track to sell essentially all of our properties by year end with nine letters of intent or our contracts are almost all assets.

In the US, as Conor will detail and as highlighted in our earnings release, our recycling and portfolio of upgrading initiatives continue at a solid pace with Kimco acquiring high-quality retail properties from both market sellers and our existing joint venture partners. Most recently, we have reached agreement with BIG, an Israeli public company and existing joint venture partner, to essentially divide 21 mutually owned shopping centers into three groups.

A Kimco-owned portfolio of seven shopping centers comprising 1.2 million square feet, a BIG-owned portfolio of eight shopping centers comprising approximately the same square footage, and six assets which will be -- continue to be owned jointly. This arrangement, together with the LaSalle and KIF acquisitions recently announced, continues our effort to simplify by our portfolio and reduce the absolute number of joint ventures and properties held in joint ventures.

Quarter by quarter, the profile of our shopping center properties is significantly improving in terms of demographics, average rents, NOI growth, and primary markets. Since late 2010, we have sold over 16 million square feet of property, and we continue to actively identify and market additional non-core and secondary retail properties. Coupled with our high-quality property acquisitions such as the Boston portfolio and the two large properties in North Carolina purchased in the first quarter, we believe we are continuing to create a superior property portfolio with excellent NOI and redevelopment prospects.

Looking quickly at Canada, our Canadian portfolio remains a strong and important contributor to our earnings despite the recent adverse impact of currency. Kimco's Canadian properties remain well occupied approximately at 96%, and our RioCan partners have identified several significant redevelopment opportunities which we are evaluating together. And now, I would like to turn to Glenn to discuss the financial details of the quarter, to be followed by Conor's discussion of our portfolio results, and then Milton will, as usual, provide some high-level observations.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Thanks, Dave, and good morning. 2014 is off to an excellent start as evidenced by our solid first-quarter results. We are actively executing on our themes from our December investor day, transforming our portfolio with high-quality acquisitions and disposing of slower growth assets from non-strategic markets, simplifying our business model with the reduction of joint ventures, and the continued exit from Latin America, while also ramping up our redevelopment pipeline. We remain focused on keeping the balance sheet strong and opportunistically assessing the capital markets and reducing our overall cost of capital.

As we reported last night headline FFO and FFO as adjusted each came in at $0.34 per diluted share, up from $0.33 for headline FFO last year and $0.32 for FFO as adjusted last year, in line with our expectations. The increase is primarily attributable to strong NOI growth generated from the operating portfolio. Also, as I've mentioned in the past, G&A is impacted in the first quarter for our annual non-cash equity comp award issuances. In addition, we incurred $2 million of severance costs.

The increase in G&A on a sequential basis was offset by two lease terminations included in the income from discontinued operations. Headline FFO includes $4.2 million of transaction income generated from a promote earned on the disposition of a preferred equity position and fees earned from the early repayment of a mortgage receivable. Headline FFO also includes $6.6 million of transaction expenses related to acquisition costs, severance related to the wind down of our Latin America operations, and the non-cash equity loss from our additional Albertsons investment made last year. We remain very excited about the prospects of the Albertsons investment as the Albertsons operating team has been executing on its business plan and consistently beating revenue projections.

Our Kimco operating team kicked off the year with solid results, delivering combined same site NOI growth of 2.5% before the negative impact of currency of 100 basis points. Same site NOI growth for the US portfolio was 2%, in line with our first-quarter internal forecast. The same site NOI growth is fueled primarily by top line revenue growth generated from increased occupancy, which stands at 94.5% for the combined portfolio, up 90 basis points from a year ago and continued strong lease expense. Although occupancy for the US portfolio was modestly lower by 20 basis points from year end, the result of the usual after-holiday season fallout, US occupancy now stands at 94.7%, up 100 basis points from a year ago.

We continue to execute on the quality upgrade of our portfolio and are planning to accelerate the dispositions of slow growth assets not located in our key territories. During the first quarter, we sold interest in 11 US properties and have 40 US assets either under contract or in price negotiations. In addition, we are preparing another 60 assets to bring to the market. As a result, we are increasing our disposition target by $300 million to a total of $1 billion to $1.2 billion for 2014, including the Latin America dispositions.

South of the border, we completed the sale of a nine property portfolio in Mexico for a gross sales price of $222 million with net proceeds to us of $110 million after repayment of debt. We are actively negotiating agreements for the sale of substantially all of the remaining assets in Latin America with the expectation to complete the sales by the end of 2014, further simplifying our business model. As Conor will elaborate on shortly, we continue to make significant progress on our efforts to unwind JVs and selectively acquire choice assets.

Turning to the balance sheet and liquidity front during the quarter, we renewed our $1.75 billion revolving credit facility, reducing the spread to LIBOR from 105 basis points to 92.5 basis points and reduced the facility fee from 20 basis points to 15 basis points. The new facility, which has a final maturity in March 2019, will provide immediate liquidity at a reduced cost, saving approximately $1 million annually. Also subsequent to quarter end, we issued a $500 million seven year bond at a coupon of 3.2%, one of our lowest coupons ever.

Proceeds from the offering will be used to repay $295 million of bonds that mature in June at a weighted average rate of 5.2%, $98 million of maturing mortgage debt at an average rate of 6.14% and the balance to partially paid down outstanding balances on our revolving credit facility. With this bond issuance, we have addressed all debt maturities for 2014. Our debt metrics remain solid with net debt to recurring EBITDA of 5.5 times and fixed charge coverage of 2.9 times. And our liquidity position is in excellent shape with over $1.6 billion of immediate liquidity.

We are pleased to be able to reaffirm our 2014 guidance range of FFO as adjusted per share of $1.36 to $1.40, despite the expected evolution from the anticipated acceleration of dispositions. Our guidance range also takes into account the expected savings from the refinancings previously mentioned. In addition, our previous guidance of same site NOI growth of 2.5% to 3.5% remains unchanged. As we move later into the year, we will have a better picture of the impact of our accelerated disposition program on 2015 earnings and property metrics.

And now, I'll turn it over to Conor.

Conor Flynn - *Kimco Realty Corporation - COO*

Good morning, everyone. Today I will begin by outlining our progress on acquisitions and dispositions and then cover the progress on our redevelopments. Finally, I will recap the leasing and operations activity for the quarter.

We continue to simplify the business model by acquiring JV interest and most recently announced that we acquired the remaining 60.9% interest in the high-quality KIP portfolio. These assets are predominantly grocery anchored with strong sales located in our key markets. The 12 properties totaling 1.5 million square feet for a gross price of $408 million translates to a blended implied cap rate of 5.9%. However, when considering the KIP promote we received, the effective cap rate is 6.4%.

It's also worth noting that 9 out of the 12 assets are unencumbered, 2 of the 12 assets do not meet our quality and growth criteria and will be sold individually as we continue to stick to our netting of transforming and simplifying. In the first quarter, we acquired a five high-quality shopping centers totaling more than 900,000 square feet amounting to a gross purchase price of $216 million, including $113 million of mortgage debt at an implied cap rate of 6.1%. These include the acquisition of three grocery-anchored properties from the of LaSalle joint venture where we purchased the remaining 89% interest. The three properties totaling 316,000 square feet are located in the greater Baltimore area and have an occupancy level of 97.6% and an average base rent of $19.49 a foot. Included in this package is York Road Plaza, a giant anchored shopping center doing over $800 a foot in sales.

In one-off transactions, we acquired two large well-positioned properties in North Carolina. Crossroads Plaza is the dominant power center located in the affluent and highly educated research triangle of Kerry. The approximately 490,000 square-foot site is anchored by Ross, Home Goods, Marshalls, Steinmart, Michael's, Best Buy, Pet Co, Old Navy, and Ulta. Combined with our adjacent properties, we now own over 900,000 square feet at this dominant intersection. With the acquisition of Crossroads, Kimco now has nine shopping centers comprising 2 million square feet in the Raleigh MSA which is ranked as one of the fastest-growing MSAs by Forbes.

Quail Corner is located in Charlotte, is 110,000 square foot Harris Teeter-anchored shopping center. Quail Corner's surrounding area posted average household income of over $100,000, and the acquisition offers an additional value creation opportunity for the fully entitled undeveloped out parcel.

Turning to dispositions, as mentioned in our recent press release, Kimco sold ownership interest in 11 US properties during the first quarter, including 7 wholly-owned and 4 unconsolidated properties held in joint ventures, for a gross sales price of $63.7 million, including $14 million of mortgage debt and a blended implied cap rate of 9.1%. Our share of the proceeds was $42.1 million. Subsequently, after the quarter, four additional assets were sold for $18.5 million with $11.3 million in Kimco proceeds.

While the properties that were sold included a few stabilized assets, the demographics and long-term growth profile were not commensurate with our future portfolio goals. As outlined at our investor day in December, a key driver of our strategy is a more aggressive approach to selling low growth and non-core assets and reinvesting in our key territories, focusing on above-average growth and redevelopment potential. We are accelerating the Company's planned level of dispositions. Currently, we are negotiating contracts for the sale of 40 US properties for a gross sales price of approximately $344 million and we are planning the market an additional to 60 properties for sale.

Redevelopments continue to enhance the portfolio in numerous ways, and 2014 will be a big year for Kimco as we look to add projects to the pipeline in addition to completing and activating numerous projects this year. In the first quarter alone, we completed $24 million of redevelopment projects, providing an incremental yield of 10.4%. Tri-City Plaza, located in the Tampa MSA, is one of the larger redevelopment projects to become active this quarter.

The $31 million redevelopment is undergoing a massive repositioning where we will be demolishing 90% of the square footage and creating a vibrant new offering that includes new buildings for LA Fitness, Sports Authority, Ross, as well as numerous restaurants. This exciting makeover will add over $2.8 million of incremental NOI. We are cautiously optimistic that the demand from best in class retailers will continue to fuel growth at our top performing assets and increased future redevelopment opportunities.

Currently, our redeveloped pipeline totaled $792 million including $260 million of active redevelopment projects, $278 million under design review, and $254 million in the evaluation phase. This report is fluid, and projects take time to ramp up; still, I am encouraged by our progress over the past year and believe we can continue to deliver projects that will improve Kimco's net asset value while providing a strong incremental return to our shareholders.

Moving onto leasing metrics, US same-site NOI growth of 2% was fueled primarily by rent commencements that added $5.2 million in base rent and an improved overall credit loss across the portfolio. The effective snow removal costs impacted our recoveries by a negative 40 basis points. Redevelopments contributed 5 basis points to same-site NOI. We expect same-site NOI to strengthen during the remainder of the year as numerous redevelopments come online, previously executed leases begin to start paying rent, and renewals and options are executed at positive rates, a trend that's continued for 15 straight quarters.

In the US, we signed 153 new leases for a total of 777,000 square feet. Overall occupancy will remain flat at 94.5% quarter over quarter, reverses the four year trend of a post holiday dip. Drilling down, pro rata US occupancy increased 100 basis points year over year, down 20 points from prior quarter due to anticipated fallout from a few anchor spaces. Anchor occupancy dipped 30 basis points pro rata versus prior quarter, small shop occupancy increased 40 basis points to 85.6% compared to the prior quarter. The year-over-year, it is up 160 basis points. This quarter's small shop occupancy increase is an encouraging sign and was primarily driven by positive net absorption.

Activity in the small shops comes prominently from national small shop operators, regional players, and franchisees. But we are starting to see numerous hair and nail salons, as well as other local service users, come back into our centers. An area that showed strong positive net absorption in our small shop space was medical use such as physician offices and urgent care facilities. In total, we had 14 new medical deals which accounted for over 46,000 square feet paying an average base rent of $21.62 a foot.

The medical service use, along with restaurants and personal care services, increased the strength of our small shop population. They are Internet resistant and drive traffic to the center on a recurring basis. A notable new international retailer we welcomed to our portfolio this quarter from California is Okinawa, part of the 300 store Japanese Natori Furniture group. Our outstanding new leases of 50% was driven by across the board double-digit positive spreads on junior anchors, midsized shops and small shops.

Some highlights include the recapture of expired pad ground lease that was paying less than $1 a foot, and we executed a new lease with a national optometrist at nearly $30 a foot in Evergreen Square. Other highlights include new leases with T.J. Maxx, Home Goods, Sports Authority, PetSmart, CVS and Shoe Carnival all paying significant higher rents than the previous tenants. The average base rent on new deals was $16.50 a foot which illustrates the mark-to-market growth we have embedded in our portfolio that will continue to create future upside for Kimco shareholders. Renewals an option leasing spreads posted a 4.6 pro rata increase, and overall leasing spreads in the US increased 8.8% and have now been positive for 13 straight quarters.

Overall, we continue to improve the portfolio by consistently executing on our three-pronged strategy of transformation, simplification, and redevelopment. Further proof of the strengthening of the portfolio is the steady increase in average base rent per square foot. We reported a pro rata ABR this quarter of $13.18 a foot, a $0.19 increase quarter over quarter and a $0.52 increase year over year, evidence the transformation is taking shape as we work tirelessly to unlock the value for our shareholders. And with that, I will turn it over to Milton.

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

Thank you, Conor As you have heard, we are executing on our plan to transform, simplify, and redevelop. First, our portfolio transformation is in full swing. A most recent example is the acquisition of the Boston portfolio which closed on April 30. The performance of this portfolio already exceeds our underwritten expectations, and we will create greater value than we projected. Now, let's take a look at what we achieved so far.

Since his September 2010, we have acquired 123 US retail properties comprising 14.4 million square feet for a gross purchase price of $2.8 billion. These properties have on a pro rata basis an average occupancy that is over 10% higher than the 158 properties we sold. The average annual base rent per square foot is over 63% higher than the ABR for our dispositions. Demographics are impressive, and average household incomes of these acquired sites is 40% higher and the estimated population is almost 20% higher than the disposed sites.

Second, we made very meaningful progress on simplifying our business by reducing the amount of joint ventures. In the second quarter of 2011, we had 552 properties in JVs. That number is now 387, a 30% decrease. This represents a reduction of more than $3.7 billion of gross investment value in joint ventures.

Now, when you look at the amount of real estate value we have purchased from our JVs, it's comparable to buying very large and high-quality portfolios. But we were able to buy these properties with less risk, less underwriting and lower transaction cost that any external portfolio acquisition. Third, we are excited about redevelopments and their potential. The pipeline is increasing and the projects are perfectly aligned with our transformation to a higher quality portfolio.

We are stimulated by Conor's passion and zeal for value creation, and we can't wait for these projects to come online. On the plus business, we're happy with the progress made at Albertsons and Super Value, and we are excited to be a part of the Safeway consortium. The transformation, simplification and redevelopment strategy is no small feat with a portfolio our size, and I would like to express my gratitude to Dave, Glenn, Conor, as well as all the Kimco associates throughout the Company who are working so hard to achieve our goals. And now, we are happy to take any questions.

QUESTIONS AND ANSWERS

Operator

Christy McElroy, Citi.

Christy McElroy - *Citi - Analyst*

Hi, good morning, guys. In terms of the BIG joint venture, what prompted the split off of properties? And why not just dissolve the JV, why continue to own the six centers within that entity? And then also, can you comment generally, are you actively working with other JV partners to formulate an exit? Thank you.

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

Sure, the second part is easy. Yes. We are working with other joint venture partners, the ones that would like to go home in any form or fashion. We are trying to work with them. Especially the ones that have high-quality properties, we are very interested in buying those properties.

Others that have secondary assets, we've convinced them to put them on the market and sell them to third parties. So, we are actively, as Milton mentioned, trying to unwind a lot of these joint ventures. Not to say that these are not great partners and that we haven't built a very good business and created value with them. It's just that at the end of the day, we had too many. Too many partners, too many ventures, and we are unwinding them.

And also as Milton mentioned, it is a great source of acquisitions for us. We can generally buy these at an effective cap rate higher than on the market, either using our promote as currency or avoiding the transaction costs, assumption fees, brokers costs and things like that. So, it's very good economics, it is a good place for us to put capital.

With respect to BIG, they've been a very good partner. They are building their own platform in the US. They have other joint ventures. This was an opportunity to basically go through the portfolio and divide it into three piles. The first pile separate some of the better long-term assets into BIG-owned portfolio and a Kimco-owned portfolio. We've negotiated division of those assets. The six remaining together have other issues that we'll resolve together. They've either got leasing or redevelopment to go through or debt issues or other reasons that they are going to stay as they are for a period of time.

Christy McElroy - *Citi - Analyst*

Are these in the disposition candidates longer term?

Conor Flynn - *Kimco Realty Corporation - COO*

The six? Yes.

Christy McElroy - *Citi - Analyst*

Okay. Thank you.

Operator

Craig Schmidt, Bank of America.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Thank you. Good morning. I wonder, are we looking at a possible shift in the pickup in ground up development in the strip category? And I know you are pursuing active redevelopments, but are you also thinking about ground up developments?

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

Overall, rents still haven't recovered to the levels necessary to justify a ground up development. You may see occasional ground up development in places like Texas or Florida where you have grocers that are particularly anxious to expand their footprint and are willing to pay very high rent. But as we've mentioned before, the old days of buying 100 acres of land and going through years of entitlement process with all the pre-leasing that is necessary to do that, just isn't on the horizon anytime soon. Because the economics are not there, developers do not want to take the small leasing risk that is involving in these transactions.

And the retailers themselves do not have the patience to wait for years to get new stores. They are committed to opening up and their expansion plan in the near future. So, they'd rather pay $2 more a foot to get immediate access to an existing store. All of which is good for us landlords, because as we've tried to say during this call, rents are beginning to jump. They're not just going up 1% or 2%.

Coming out of the recession, rents are beginning to jump, and eventually, it will lead to new construction. But for now, we have the benefit of very constrained supply. Retail per capita in the US is going down for the first time because population growth is exceeding the new supply of retail. So, all of that bodes well for us.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Conor Flynn - *Kimco Realty Corporation - COO*

Sure.

Operator

Paul Morgan, MLV.

Paul Morgan - *MLV & Co. - Analyst*

Hi. Good morning. Just maybe if you could provide a little bit more color about your investment in the Safeway transaction. What -- from Kimco's perspective, what is the opportunity there and how would you compare or contrast it with Albertsons and SUPERVALU. They're not exactly the same situations. And then whether you see some of their shopping centers falling out to you from that?

Ray Edwards - *Kimco Realty Corporation - VP*

Well, I will take the first part first regarding shopping centers falling out for us. I think what is going to happen is really, when the deal does close, we still need shareholder approval and antitrust approval. But if the deal does close on day one, it is going to be an operations turnaround play to merge two companies, there'll be 2,300 stores going forward on that. But like the transaction that we just closed in 2013 and in 2006, we see we have an operating team in place, and we think it really improved the business and the prospects for the retail operations and from that, add value to the real estate.

Right now, the real estate is kind of being used -- not kind of being used as a refinancing vehicle for the acquisition, but in time, we are going to work with our partners and use the real estate to add value to the transaction.

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

Just please be aware, it's in an approval process now, so we're a little bit limited on how much we can say. We will tell you that the five brands we bought from SUPERVALU last year, the early indications are terrific. The comp sales are good and the improvements are very good. So, we feel very good about what we've bought and we feel very optimistic about the Safeway transaction when it closes.

Paul Morgan - *MLV & Co. - Analyst*

Great. Thanks.

Operator

Tammy Figue, Wells Fargo Securities.

Tammy Figue - *Wells Fargo Securities - Analyst*

Hi, good morning. I was just wondering if you could discuss the cap rate spread between expected dispositions and acquisitions for the year and then maybe your use of proceeds from the incremental disposition capital. Thank you.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Yes. No problem. I think the first quarter is probably a little bit of an indicated that we are going to be ramping up our dispositions and that we think that overall throughout the year, it'll probably average out to about an 8% cap for our disposition portfolio. We do have a number of different portfolios in the market today. Some of them are in the market as a package but can also be bid on individually. The asset type ranges from really power center to grocery-anchored center to triple net leases. We have been really going asset by asset and taking a deep dive throughout the portfolio to see where we can unlock value, where we can lease up vacancy and keeping that in the parent. We think that there's downside or risk for very little growth embedded, we have put that on the market.

We think that overall, that cap rates will probably even out to about an 8% from year end. Right, when you blend it with the Latin America sales that we're doing, you are probably looking at somewhere around 225 basis point spread between acquisitions and dispositions in total when you put it together.

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

The one encouraging thing is the disposition activity, the window is still wide open. If anything, cap rates are falling faster on some of that B properties and secondary assets than you would have expected. It's encouraging to us that there is good activity, and we are doing the best we can to take advantage of it so that 200 basis point spread that Glenn mentioned is probably drifting down towards 150 basis point spread based on current indications.

Tammy Figue - *Wells Fargo Securities - Analyst*

Okay. And then just the use of the proceeds from the incremental disposition capital?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Well, again, in terms of our overall capital plan, again, you see the amount of acquisitions that have gone on. So, between acquisition and the redevelopment pipeline, that's how we're fueling our funding requirements. So, that's where it's going to go.

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

For the moment, it is a full recycling. There is no excess either way for the moment.

Tammy Figue - *Wells Fargo Securities - Analyst*

Okay. Thank you.

Operator

Jason White, Green Street Advisors.

Jason White - *Green Street Advisors - Analyst*

Hey, good morning. I was just hoping you could walk through the composition of the renewal spreads of mid-4% range. Because from what we understand, you're typically getting some thick bumps of 10% every 10 years and obviously a wide range. But if you can walk through the composition of renewal options versus spreads on just one-off renewals, it would be helpful.

Conor Flynn - *Kimco Realty Corporation - COO*

Yes. The renewal spreads -- the renewals and options posted was 4.6%, so it's really a combination of anchor leases as well as midsized shops as well as small shops. You are right that there's typically option increases of anywhere that range from 5% to 12% on a 10 year basis.

But there are some leases that obviously move the needle each way, and we've -- there's a combination really of the major renewals that we've done as with Staples, where they renewed at almost double their rent in Garden State Pavilion. Marshalls at Torrance Promenade out in, we took them from close to $5.50 up to $14 a foot. Shoe Carnival from $6 to $9, and Home Depot exercised their option out of Town Center East in Signal Hill, which had a 5% increase. We see it as a range where the -- still the growth driver is in our junior boxes, and we think that that's going to continue as there's just very little supply out there. These retailers are holding onto the real estate they have because they realize how valuable it is.

Jason White - *Green Street Advisors - Analyst*

Okay, so the non-option renewals weigh on some of those fixed option spreads a little bit, and that's where you get to the 4% range.

Conor Flynn - *Kimco Realty Corporation - COO*

That's correct. There's a few that sometimes are rolled down, there's a few that when you average it out, it's a 4.6% spread.

Jason White - *Green Street Advisors - Analyst*

Thank you.

Operator

Jim Sullivan, Cowen & Company.

Jim Sullivan - *Cowen and Company - Analyst*

Good morning. Looking at your -- the large tenant list, it is pretty interesting that the Kmart exposure has dropped so significantly year-over-year from 50 locations down to 34. I know that some of that is associated with sales, but obviously some of its also associated with recapturing space and redeveloping it. And I just wonder, if we can have an update on whether you expect any near-term movement there, any additional material recapture. You've done some sizable deals in the New York market, but maybe just if you could give us a flavor for how those discussions are going, whether there's any accelerated pace of closings to be expected there or not.

Conor Flynn - *Kimco Realty Corporation - COO*

We don't see any accelerated pace of closures, but what we do see is they are continuing to be active on trying to sublease positions where they think there's value. And that usually sparks the conversation of lease terminations, payments from Kimco to Kmart or Sears. We see that there is future opportunities. We've been waiting patiently for these older leases for a long time. We think that's a big differentiator for us. So, we continue to be in constant communication with them and continue to negotiate on a few deals where we think we can create significant value either from releasing or redeveloping.

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

And we also even bought an existing center with an existing Kmart lease that has a short term left in Marathon, Florida that is a wonderful redevelopment play. So, we are not afraid of the exposure where we can underwrite the real estate very well.

Operator

Did that conclude your question or the answer to you, Mr. Sullivan?

Jim Sullivan - *Cowen and Company - Analyst*

That's great. Thank you.

Operator

Rich Moore, RBC Capital.

Rich Moore - *RBC Capital Markets - Analyst*

Hi. Good morning, guys. While we're on the topic of store closings, curious what your thoughts are on Office Depot and their notice that they are going to close 400 stores over the next several years, 150 this year. Have they notified you guys of any closings, and what do you have expiring in the way of Depot and Maxx leases this year?

Conor Flynn - *Kimco Realty Corporation - COO*

Yes. It's obviously been something we've been monitoring for a long period of time. When you look at the Office Depot, Office Max exposure, we have 67 leases, 6 that expire this year and 13 that expire in 2015. But you've got to look at it collectively with the whole office supply sector, because the Office Depot, Office Max closures will impact what Staples decides to do with their portfolio. We've been monitoring it closely and working on understanding which assets overlap. And we do have upside in those leases that are expiring, we have 10 office supply leases expiring and the next -- through 2017 that we believe are 69% below market. So, we think there is significant upside there.

We have already started the process of preleasing that, and we think that their square footage is ideal for today's junior anchors. You can take a look at whether it's soft goods players like TJX or Ross, but there's also a lot of specialty grocers in the market today that are a perfect fit for that 25,000 square foot box. It's really the sweet spot for users today. So, we are cautiously optimistic that the closures that will result in the merger will actually result in future upside of potential redevelopment.

Rich Moore - *RBC Capital Markets - Analyst*

And have they given you any indication, Conor, of when they might notify you about this first round?

Conor Flynn - *Kimco Realty Corporation - COO*

They have not yet. We've been in discussions, and we know that we're going to meet with them shortly. We've been in constant communication. We have a good idea since we have a tracking system of which ones are doing well and which ones have year-over-year declines that we've circled which ones we think are keepers and which ones we think are closures.

Glenn Cohen - *Kimco Realty Corporation - CFO*

And I think what is happening also, whether it's Staples, Office Depot, Office Max, is because they know, like we do, there is a lot of interest in their boxes, if they're going to close stores, now is the time for them to go out there and see how they can mitigate their liability. I imagine they're getting the calls from the same retailers that are calling us and what is available. I think they're going to really spend the next couple of months seeing what they can line up and then call us up and say, we want to close and we have XYZ for you to help reduce their cost on the long-term lease. So, I think it's going to be a win-win for both of us going forward.

Conor Flynn - *Kimco Realty Corporation - COO*

For instance, even if they closed all six locations in 2014 that are expiring, it's less than. 001% of average base rent. It's just de minimus in the overall picture of Kimco.

Rich Moore - *RBC Capital Markets - Analyst*

Great. Thank you guys.

Operator

Haendel St. Juste, Morgan Stanley.

Haendel St. Juste - *Morgan Stanley - Analyst*

Good morning. Thanks for taking my question. I'd like to go back to the Safeway investment once more, but maybe from a different angle. You've made a lot of progress in the simplification of your business in the last couple of years, which is what you're investors clearly wanted. Can you help me understand or reconcile the recent Safeway investment with the simplification theme? I'm not questioning your ability to structure a sound financial investment, especially how well your Safeway investment there, but really asking how you thought about balancing the conceptual risk of this type of maybe non-core investment versus your simplification goals.

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

That's a very good question. We have always had a basic real estate business and a plus business, and the plus business we've had for many years and our track record has been superb. So, we just see this as fitting in to the plus business. And what excites us about Safeway is that it is really part of the same consortium that did so well in the other plus businesses, Albertsons, et cetera. So, this we've had for many, many years. It's not a deviation from our simplification strategy.

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

And in terms of the level of capital invested in the business, it's very minor compared to the mothership, if you will, in our core portfolio. So, it's an adjunct, it's synergistic with what we do. It helps with relationships with retailers, and it's an opportunity to make a little money on retailer-owned real estate. And it gives us a lot of edge and it helps to differentiate the Company, quite frankly.

Conor Flynn - *Kimco Realty Corporation - COO*

And it gives us a lot of insight on the operations level. It allows us to really understand the grocery business. And this is something that, they own quite a bit of real estate, just like the previous transactions. And we think there's future upside there for either purchasing and redeveloping or for future development. So, we like being partners with this type of operator because it gives us a ton of information that we normally wouldn't have available to us.

Haendel St. Juste - *Morgan Stanley - Analyst*

And can you remind us again, your exposure to Safeway, Albertsons, what percentage of your portfolio that represents?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Yes, it's 1.1% of ABR, again, it's relatively small.

Haendel St. Juste - *Morgan Stanley - Analyst*

All right, thank you.

Operator

Andrew Schaffer, Sandler O'Neill.

Andrew Schaffer - *Sandler O'Neill & Partners - Analyst*

Thanks. Now that the New England portfolio has closed, can you remind us of the upside embedded within this portfolio and how you plan on unlocking it?

Conor Flynn - *Kimco Realty Corporation - COO*

Yes. We are pretty excited about the Boston portfolio. We have obviously been going through an arduous loan assumption process, and through that process, we actually were able to take over the leasing. And the previous management team, I would say left a lot of meat on the bone. So, during that loan assumption process, we were able to actually outperform our underwriting.

A lot of tenants that we had anticipated staying flat instead of exercising their option, actually exercised their option across the board. We've done a lot of new leases at above rents that -- of rents that we thought we could achieve, and that's just on the existing portfolio. We have a potential to add six or more pads to the portfolio that were in the market now looking for pad operators to come into the site. We've also got future redevelopment potential to add significant density, especially in the urban markets where these assets are located. We think that the early indicators are very positive. The cap rate has moved even since from when we put it on contract to when we closed so that we've actually created significant value already, and we think that's just the tip of the iceberg.

Andrew Schaffer - *Sandler O'Neill & Partners - Analyst*

Thanks.

Operator

Mike Mueller, JPMorgan.

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

Yes, hello. I was wondering if you could talk a little bit about the timing of the dispositions that you see going throughout the year. And after 2014, what's implied for what should be hitting in 2015 as well?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Well, Mike, the timing is a little tricky to say the least. It's tough to predict when these things will all close. The additional amount that we've targeted to sell during the year, we expect to close more towards the latter part of the year. It really does not have a major impact on our 2014 guidance. We'll have to see how it plays out, refers to my comments that -- we will give you a better picture as we go through the year on it, but we really ramped it up. And again, same thing with the Latin American sales. We're happy that we closed the first piece. We have a lot of things in play and under contract, but timing's a little tough to predict, so Latin America stuff is really throughout the year.

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

Yes. Mexico in particular is very tough to predict, because you have the governments involvement. They have to it approve all these transactions, and there's actually been a change in the antitrust commission in Mexico. And so it's just like the FTC here on bigger deals in Mexico. Even on smaller deals, the government has to finally bless it, and that timing is very uncertain. As an example, we have a hard contract on four assets right now but subject only to when the government finally approves that. That could happen next week or it could be two months from now. Unfortunately, it's hard on Glenn, because some of the stuff is variable.

Conor Flynn - *Kimco Realty Corporation - COO*

I would just add that on the US portfolio that we have in the market, we have seen bids come in higher on individual assets or subportfolios. So, that again is tough to time because instead of the portfolio trading at a certain point in time, the subportfolio might trade at different times.

Glenn Cohen - *Kimco Realty Corporation - CFO*

I think the key takeaway, really, is we are accelerating. And so if you go back to our Investor Day, we laid out a plan of a three or four year period where now we have really pushed a lot of it into 2014. The amount of dispositions as we go forward, 2015, 2016 I think are going to be a little bit more tempered.

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

It still remains just a wonderful opportunity. The window is open, and we hope to take advantage of it.

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

Got it, okay. Thank you.

David Bujnicki - *Kimco Realty Corporation - VP*

Andrew, the next question?

Operator

Ross Nussbaum, UBS.

Jeremy Metz - *UBS - Analyst*

Good morning, Jeremy Metz on with Ross. Your lease commence can wound up to about 250 basis points in Q1. Can you just talk about where you expect this to be later in the year and therefore, be an impact that can have on your same-store growth which at 1.5%, started off in a little bit of a tough position versus guidance?

Conor Flynn - *Kimco Realty Corporation - COO*

Sure. Currently, the spread between executed occupancy and rent flowing occupancy is, as you mentioned, is close to 250 basis points. We actually think that that's a future upside for us, and we think that close to 100 basis points is going to start flowing in Q2. And as we see that, there is larger redevelopment programs coming online for the second quarter as well as the rest of the year. In [Hassett], we've been talking about for a while, which is the Nordstrom and DSW repositioning project, that's coming online later this year. At the Greenridge Plaza out in Staten Island, we have an LA Fitness coming on later this year. Bass Pro in Alaska is coming on later this year.

So, we haven't changed our guidance on same side NOI. Clearly, we were impacted by -- it was almost a perfect storm of snow, currency. We obviously know that there's future growth going to happen in the second half of the year, and that's what our budget, our internal budget shows. So, we feel pretty comfortable that we can perform and have some significant growth in the second half of the year.

Jeremy Metz - *UBS - Analyst*

Thank you.

Operator

Ki Bin Kim, SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Thanks. If you just go back to Sears, I remember in your investor day and some of the conversations that a lot of upside in your portfolio does come from these older, historic leases in Sears or Office Depot leases. Is there some kind of concern that it Sears it does go this route of actively releasing their own space, some of this upside is inherently capped by them capturing the upside? And what kind of legal or lease language protections do have in controlling who comes into that sublease space?

Conor Flynn - *Kimco Realty Corporation - COO*

A lot of the Kmart leases are pretty open for them to sign or sublet them. However, I think the issue for them is there aren't a lot of 100,000 or 120,000 square-foot users out there. So, they've got to subdivide the box, and many times they need to work with the landlord to do that. I think there's going to be opportunities for them to take their tenants they have and work with them to do deal that's beneficial for Kimco on that. It's not like we -- they can really do a lot of deals without reaching out to the landlord, so I think we'll be involved in the process. We are better suited. They have 1,000 stores, they can't subdivide all these stores themselves. They don't have the manpower to do that. So, they are going to be working with landlords like Kimco on sites they want to sublet.

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

All of the indicators show that they are not interested in becoming landlords. They are not interested in taking the headaches of the construction risk. And they -- you have either sold or look to exit their leasehold position. So, we're continuing to work with them. We think there is a significant upside embedded in our portfolio. And a lot of the leases that we have left that we showcased in our investor day do not have any remaining options left. So, there's really not a whole lot of term left for them to sublease to any retailer, so we have some protection there where we have to be able to recapture it. So, many times they hand us the retailer that's interested in the space, and we do a deal direct and have Kmart go away.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. But if they do sublease it, is there a way you guys partake in the economics upside? Or is that?

Conor Flynn - *Kimco Realty Corporation - COO*

Yes, we can definitely be part of the economic deal. But you also have to understand is that literally come into leases where they are all under option periods. They might have eight five-year options, but where are they in the process? You do it deal with a tenant, they want a 10-year lease with two five-year options which might not match up with their lease. That becomes a problem for them. That problem is an opportunity for us to get involved in the deal and make a transaction that's beneficial for us.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you.

Operator

David Harris, Imperial Capital.

David Harris - *Imperial Capital - Analyst*

Hi. Good morning. After your South America and Central American sales, we're left with Canada as your non-dollar investment area. It is about 10% of the Company on a number of metrics. I have you given any consideration to hedging yourself against the effects of volatility of the loonie?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Well, we are hedged in terms of the investment in two respects. We have Canadian dollar mortgages on almost all of the properties, and then the equity that we've invested in Canada has basically been through maybe a dollar denominated unsecured bond from Kimco.

So, the investment itself is hedged; the only part that's not hedged is the FFO or the income that comes off it every year. And for most years we've been on the plus. This year, for the first time we've been on the negative side of that. But again, in terms of the total scope of Kimco, it's not much. And the portfolio itself continues to perform very well.

Operator

Did that answer your question, Mr. Harris?

David Harris - *Imperial Capital - Analyst*

Not entirely. But I am not sure I want to pursue it on the conference call.

Conor Flynn - *Kimco Realty Corporation - COO*

Happy to talk to any time, David.

David Harris - *Imperial Capital - Analyst*

I do not know if you looked at the forecast -- most people's forecast for the expectations of where the Canadian dollar is going to go relative to the US dollar over the next couple of years. My number is you're about 5% of your net assets are -- so actually about 10%. It's meaningful. You've not got a per currency mismatch that your Canadian exposure is not misaligned with your US exposure as we've seen with a number of other REITs that are mismanaged their foreign exchange exposure, but I still think it potentially is a source of NAV and earnings vulnerability as we go forward.

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

Again, we've done the very best we can to match the total investment against Canadian dollars. The income, you're right. It is at risk, but we don't think it's that material.

David Harris - *Imperial Capital - Analyst*

Well, the NAV's also at risk --

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

Remember -- if the Canadian dollar weakens more, the Canadian dollars we are paying back in US dollars also weakens. So, I would respectively disagree with that.

David Harris - *Imperial Capital - Analyst*

Okay.

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

The liability side also is matched to the asset side because we have Canadian dollar bonds and we have Canadian dollar mortgages.

David Harris - *Imperial Capital - Analyst*

Yes, but you've got more net asset exposure, gross asset exposure than your liabilities, so there is a net asset exposure here to changes in the FX.

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

That's true. That's fair enough. 10% it's meaningful. If I'm right on my numbers. But as I say, probably a discussion offline sometime.

David Bujnicki - *Kimco Realty Corporation - VP*

Yes. We will take it off-line David. We've got a few more people in the queue that we want to get to.

Operator

Chris Lucas, Capital One Securities.

Chris Lucas - *Capital One Southcoast, Inc. - Analyst*

Good morning, everyone. Dave, I just wanted to dig in real quick on the new lease spread. The way you described it, sounds like it was more than just a single lease that was responsible for the significant bump. And while I recognize that the amount of the leasing volume is relatively small compared to the overall amount of volume you guys did, I just was curious to how you are thinking about that new lease environment and specifically, whether or not we are at the beginning of seeing potentially rent spikes of consequence that are broadly based in the portfolio.

Conor Flynn - *Kimco Realty Corporation - COO*

I'll take the first part. I think the new lease population here is, relative to our peers, is actually quite large. We had 153 new leases signed in the quarter. So, compared to some of our peers, that's actually quite a large population. We are seeing actively working towards a new leasing and see the pop in terms of where the rents are going.

We have replaced some of the lower -- what we like to call the vintage leases. One of them was a below market out plot or pad lease. Some of the other larger deals that we did with T.J. Maxx, Home Goods, Sports Authority, we are replacing an old Kmart box. So, yes, we've been able to harvest the upside in these new leases that are replacing some very below market leases.

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

And I did want to highlight it in my comments, because I do think it is the beginning of a spike in the market rents. Things are popping up nicely, driven by a shortage of space that's available. When you combine that 35-year low of new construction with a five-year high and planned new store openings, good things start to happen in terms of rents. So, yes. We feel good about what's happening on the new lease and market rents.

Chris Lucas - *Capital One Southcoast, Inc. - Analyst*

Great. Thanks a lot.

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

Sure.

Operator

Nathan Isbee, Stifel.

Nathan Isbee - *Stifel Nicolaus - Analyst*

Hi. Good morning. Conor, just going back to your comment about increased leasing to nail salons and other mom-and-pop service tenants, can you talk about how you are approaching the underwriting of these non-nationals tenants? And is there any change in how you're approaching it, or is it just a function -- you are not giving them any TIs and just, you're taking a flyer at them? And then I guess as an extension, how do you think about the mix in your centers between leasing to a more service-oriented, which might get more people to get come in versus a national that could pay a higher rent?

Conor Flynn - *Kimco Realty Corporation - COO*

Sure. It's a good question. We look at every small shop lease individually. And it really comes down to the tenant's financial strength. We look at it great detail on what assets are behind them. So, we underwrite them appropriately to figure out what kind of TI payment we feel comfortable giving them.

Many times, if it's a mom-and-pop tenant that is a first time user, we steer them to a space that's either previously built out for the same type of use. So, the risk is diminished quite a bit because most of the fixtures and the improvements are already in the space. The cost to have them open and do business is relatively lower.

That being said, there is -- we've had a wonderful track record of our mom-and-pops, especially the nail salons, the hair salons. They are -- there are tenants in our shopping centers that have done quite well and have been a good investment for Kimco and Kimco shareholders. And when comparing contrasting -- the service local users versus the national, it really comes down to the composition of the asset and the demographics that's surrounding the asset. You've got to really put together a nice offering that differentiates yourself. You don't want to have the same type of user lined up right next to each other all the way down a row of shops, because then it really doesn't add to the complexity or the offering that you're trying to give to the neighborhood.

So, you really just have to take a step back and look at a void analysis, what's missing in the market? What's currently in the shopping center? What's doing well in the shopping center? What's complimentary to the mix there, and what you can do to actually enhance it. So, that's really what we look at. And it comes down to the individual tenant when you're looking at the financial strength and then it comes down to the individual asset and the surrounding demographics when you're deciding on what's the highest and best use.

Nathan Isbee - *Stifel Nicolaus - Analyst*

Clearly, there's some of very fine nail salons out there. The one I use is great (laughter). But I'm -- you can't argue, that was -- the mom and pops were clearly a source of weakness in the previous downturn.

Conor Flynn - *Kimco Realty Corporation - COO*

That's true. And the dollars invested in the pure local mom-and-pops are significantly lower than the national. We do have a discount rate appropriate to the risk taking on that small shop tenant. And most of the small shops that were hurt the hardest in the last downturn wasn't really the nail salons or the hair salons. It was more of the specialty users that were offering something that couldn't compete with the online world and the big-box retailers that just got demolished when the downturn occurred.

Nathan Isbee - *Stifel Nicolaus - Analyst*

All right, thanks.

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

And I would add one comment. The community banking system is coming back, and that's a source of capital for most of these small tenants. So, you are seeing the jewelry store looking for a second location, the dry cleaner looking for a second location. So, that bodes well for us as well.

David Bujnicki - *Kimco Realty Corporation - VP*

Andrew, we have time for one final question. Andrew?

Operator

Linda Tsai, Barclays.

Linda Tsai - *Barclays Capital - Analyst*

Hi, thanks for taking my question. What percentage of your leases constitute vintage leases? And over the next three years, how much of an impact do you think this can have on the blended rent spread?

David Bujnicki - *Kimco Realty Corporation - VP*

Linda, most of that was covered in our investor day. I do have that information. I'll be more than happy to share with you. At my fingertips, we don't have that right now, but that's something I can give you immediately after the call.

Linda Tsai - *Barclays Capital - Analyst*

Okay. Thanks.

Operator

Please go ahead.

David Bujnicki - *Kimco Realty Corporation - VP*

Thanks, Andrew. Thanks to everybody that participated on our call today. If you have some additional questions that you were not able to get to on the call, I'll be more than happy to take them all day today. Also, there's additional information for the Company that can be found on our supplemental, as well as on our website. Thank you very much.

Operator

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