THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

KIM - Q3 2014 Kimco Realty Corp Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2014 / 10:00AM EDT

CORPORATE PARTICIPANTS

David Bujnicki *Kimco Realty Corporation - VP*

Dave Henry *Kimco Realty Corporation - CEO*

Glenn Cohen *Kimco Realty Corporation - CFO*

Conor Flynn *Kimco Realty Corporation - President & COO*

Milton Cooper *Kimco Realty Corporation - Executive Chairman*

Ray Edwards *Kimco Realty Corporation*

CONFERENCE CALL PARTICIPANTS

Craig Schmidt *Bank of America - Analyst*

Christine McElroy *Citi - Analyst*

Paul Morgan *MLV - Analyst*

Haendel St. Juste *Morgan Stanley - Analyst*

Jason White *Green Street Advisors - Analyst*

Jim Sullivan *Cowen Group - Analyst*

Rich Moore *RBC Capital Markets - Analyst*

Ryan Peterson *Sandler O'Neill - Analyst*

Ki Bin Kim *SunTrust Robinson Humphrey - Analyst*

Linda Tsai *Barclays - Analyst*

Ross Nussbaum *UBS - Analyst*

Lina Rudashevski *JPMorgan - Analyst*

Tammi Fique *Wells Fargo - Analyst*

Greg Schweitzer *DB - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Kimco Realty Corporation third quarter 2014 earnings conference call.

(Operator Instructions)

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

David Bujnicki - ***Kimco Realty Corporation - VP***

Thanks, Gary. Thank you all for joining Kimco's third quarter 2014 earnings call. With me on the call this morning are Milton Cooper, our Executive Chairman, Dave Henry, Chief Executive Officer, Conor Flynn, President and Chief Operating Officer and Glenn Cohen, our CFO. 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 funds from operations and net operating income. Reconciliation of these non-GAAP financial measures are available on our website. With that, I'll turn the call over to Dave Henry.

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

Good morning and thank you for calling in today. We are very pleased to report excellent third quarter financial results which highlight very healthy fundamentals in our portfolio. Our operating metrics across the board for the quarter were excellent, led by solid occupancy gains and strong growth in US same side NOI of 4.9%.

We continue to be pleased with the improving trends in small shop space and our 15th straight quarter of solid leasing spreads for both new leases and renewals. As we have discussed in prior calls, limited new supply, population growth and positive GDP growth have all combined to provide excellent momentum for increases in effective rents, leasing spreads and occupancies across the open air shopping center sector, particularly in high quality properties in primary markets.

While retailers in general have had a mixed year so far, there is optimism about the holiday season and many of our top tenants are doing very well such as TJX, Costco, Home Depot, Burlington, Ross Stores, et cetera. Many of these tenants are continuing to substantially increase their store counts.

Restaurants in particular are expanding in great numbers, led by the relatively new fast casual category which includes Panera Bread, Chipotle, Chick-Fil-A and Smash Burger. While Kimco, like several of our peers, is beginning to invest very selectively in several ground up developments, new supply is expected to remain muted for several more years and retail space per capita in the US has actually declined slightly.

While e-commerce continues to impact brick and mortar retailers, most large retailers have found effective ways to blend their growing e-commerce business with their store operations. The OmniChannel concept is a reality and most of us landlords smiled recently as we read that Amazon plans to open a new retail show room in New York City. In terms of our overall strategy, we continue to implement our TSR initiatives: transformation, simplification and redevelopment.

Glenn and Conor will cover their specifics, but we are on track in terms of selling our tier 2 properties and selectively adding high quality property acquisitions. Our redevelopment pipeline also continues to grow with new acquisitions and as rising rents make more projects economically feasible. In Mexico, we are working very hard to close our last large portfolio sale which is under contract and which we hope to close in late November.

We also have one property remaining in Chile which is under a letter of intent. All of our other properties in Chile, Peru and Brazil have now been sold. Canada remains a strong and consistent contributor to our earnings with excellent FFO returns despite the soft Canadian dollar. Occupancy and same site metrics excluding currency are very solid and property values are at very high historical levels.

There are also several significant redevelopment opportunities in the Canadian portfolio which we are evaluating with our Canadian partners, particularly RioCan. Now, I'd like to turn to Glenn to outline our specific financial results for the quarter to be followed by Conor's discussion of portfolio results with Milton batting clean up.

Glenn Cohen - ***Kimco Realty Corporation - CFO***

Thanks, Dave and good morning. Our solid third quarter performance is the result of continued execution of our stated strategy. The significant transformation of our portfolio is producing excellent operating metrics highlighted by strong same site NOI growth, positive leasing spreads and a further lift to our occupancy level. We've also made significant progress on the simplification front.

Let me provide some color on the quarterly results. As we reported last night, FFO as adjusted per diluted share, which represents recurring FFO and excludes transactional income and expenses and non-operating impairments was $0.36 as compared to $0.33 last year, a 9.1% increase. The primary drivers of the growth are attributable to higher NOI delivered by the shopping center portfolio coupled with lower interest and G&A expenses.

FFO as adjusted for the nine months stands at $1.05 per share. Based on our expectations for the full year, we are tightening our FFO as adjusted per share guidance range to $1.38 to $1.40 from $1.36 to $1.40. The mid point of the guidance range would represent a 4.5% annual growth rate.

A solid result considering the $0.04 dilutive impact of disposing of higher cap rate assets including InTown Suites, our Mexico assets and many of the non-strategic assets sold, while using the proceeds to acquire high quality US assets in our key target markets at lower cap rates. Headline FFO, which represents the official

NAREIT definition for the third quarter, was $0.39 per diluted share, which includes $11.7 million of transactional income, primarily from the receipt of a cash distribution in excess of the investments basis and certain land sale gains.

Headline FFO per share for the nine months is $1.07. As requested by NAREIT, in addition to our FFO as adjusted per share guidance, we are providing full year headline guidance for 2014 with a per share range of $1.42 to $1.45. US occupancy has increased to 95.5%, up 50 basis points for the quarter and up 60 basis points year-to-date. The bulk of the increase is attributable to positive net absorption with minimal impact from acquisitions and dispositions.

Overall occupancy, including Canada and Latin America, is now 95.3%, also up 50 basis points for the quarter and 80 basis points since the beginning of the year. We are increasing our overall occupancy guidance for 2014 to up 80 to 100 basis points from our previous guidance of 50 to 75 basis points. The closely watched metric of same site NOI growth was very strong at 4.9% in the US, bringing the year-to-date US same site NOI growth to 3.1%.

The drivers of the same site NOI growth for the third quarter were strong minimum rent increases, providing 370 basis points of the growth and better credit loss performance, contributing 60 basis points. Overall same site NOI growth including Canada and South America was 4.8% excluding the negative impact from currency of 60 basis points.

The improving third quarter results bring overall same site NOI growth for the nine months to 3.3%, excluding the negative 80 basis points impact from currency. We are tightening our 2014 same site NOI guidance range to 2.75% to 3.5% from 2.5% to 3.5%. The transformation of our portfolio is in its final stage. During the quarter we completed the disposition of 24 US assets, generating proceeds of $192 million and recognized non-FFO gains of $91 million.

Subsequent to quarter end we sold an additional 17 properties, providing another $104 million in proceeds. We have made tremendous progress on the simplification front. During the quarter we sold three properties in Mexico for $110 million and have a contract on nine other Mexican assets which we expect to close by year-end. Subsequent to quarter end, we completed our exit from Peru and expect to sell the remaining asset in Chile shortly.

We remain on target to substantially complete our south of the border exit by the end of the year. As a reminder, only upon substantial liquidation of an investment in a foreign country can the impact of foreign currency translation gains or losses be recognized in earnings. As of September 30, the unrealized loss due to currency associated with our Mexico and remaining South America assets was $127 million.

This amount will fluctuate with changes in foreign exchange rates and the final impact of currency will not affect FFO at the time it is realized, as it will apply to the respective gains and losses on the assets sold. Continuing with the simplification theme, we reduced the number of joint venture properties by 19 during the quarter with the acquisition of ten assets from SEB, which are now wholly owned and the sale of nine properties from the [Schatenstein] DRA and Mexican joint ventures.

We recognized a change of control gain which is not included in FFO of $14.4 million relating to the SEB assets acquired. Subsequent to quarter end, we acquired seven properties from the joint venture with BIG and sold eight other properties from this joint venture. Overall, we have reduced our joint venture properties from its peak of 552 properties to 342 properties today, a reduction of over $3 billion of gross Real Estate investment.

On the balance sheet front, our debt metrics and liquidity position remain in excellent shape with net debt to recurring EBITDA at 5.6 times and over $1.4 billion of immediate liquidity available. Lastly, we are pleased to announce that based on our 2014 performance, our Board of Directors has approved an increase in the quarterly cash dividend to $0.24 per quarter up from $0.225 per quarter, an increase of 6.7% on an annualized basis. Our FFO pay out ratio will remain conservative in the mid 60% range, among the lowest in our peer group. Now, I'll turn it over to Conor.

Conor Flynn - ***Kimco Realty Corporation - President & COO***

Thanks, Glenn. Good morning, everyone. Today I'll update our progress on acquisitions and dispositions and then cover the operating metrics. Finally, I will recap the redevelopment progress for the quarter. Three major themes emerged this quarter. First, the demand for US real estate is robust with private REITs, public REITs, international funds, private equity and high net worth individuals seeking out the safety and consistency in a volatile marketplace.

This demand is driving cap rates lower and a disconnect exists on the pricing of an asset in the open market versus what is currently reflected in the net asset values in the public markets. Second, in the small shop retailer, specifically the service sector is coming back to open air shopping centers at a higher than anticipated rate, accounting for 92% of the new leases signed this quarter.

Third, multi-family development continues to push land prices higher. While this limits retail ground-up development opportunities, it is beginning to result in future redevelopment opportunities where we can take an existing open air center and potentially add a mixed use component to create more value for the long term Kimco shareholder. We continue to position the Kimco portfolio to take advantage of the urbanization effect.

As outlined in our press release, we acquired our partner's, SEB's interest in 10 grocery anchored centers primarily located in dense mid-Atlantic markets. After the close of the quarter we completed the acquisition of our partner, BIG's interest in seven properties while selling them our ownership in eight properties. This creative portfolio split adds six grocery anchored centers to our wholly owned portfolio.

Six of these seven properties are located in California and one in Long Island. These two transactions continue our simplification strategy by reducing the number of properties and joint ventures in addition to increasing the percentage of assets with a grocery component to 64.4%, up from prior year-end of 58.6%.

Since the beginning of the year, we have acquired 32 properties out of our joint venture platform with a gross value in excess of $970 million, making up the bulk of our acquisitions so far this year. While we continue to analyze and track high quality opportunities in the open market within our key territories, we remain disciplined due to historic low cap rates and a plethora of capital chasing high quality deals.

We will continue to mine for acquisitions with redevelopment opportunities but anticipate being a net seller in the fourth quarter. Turning to dispositions. During the third quarter, we sold ownership interest in 24 US properties, 17 wholly owned and 7 held in joint ventures, totaling 2.4 million square feet for a gross sales price of $263 million including $35 million of mortgage debt.

The applied cap rate for these assets is a blended 7.5% and the company's share of the proceeds from these sales was $205.4 million. Cap rate compression across all quality levels continues as investors large and small, domestic and international are seeking safety in US real estate. We continue to execute on our stated strategy of transforming the portfolio by selling the lower quality and flat assets.

So far this year, we have sold 50 properties in the US at a blended 7.8% cap rate. We continue to take advantage of the ideal market conditions to exit our non-core assets. We anticipate a similar pace of dispositions to close out the year and are on track to complete the transformation and enhance the Kimco portfolio by the end of 2015.

Dispositions this quarter included triple net JV portfolio of former K-mart boxes that we repositioned with national big box retailers and sold to a public REIT. In addition, the former Frank's Nursery triple net portfolio in the mid-Atlantic has been repositioned with national junior anchors and sold to a private real estate company. Both of these portfolios were 100% occupied and sold into the hyper competitive triple net market.

We will continue to bring other flat triple net properties to the market alongside non-core assets and continue to guide towards a blended 8% cap for the year on our dispositions. While the inventory is available, spaces continue to diminish in the retail sector. Our leasing team is undaunted, as it produces an impressive velocity of deals, filling up the sparse amount of vacancies and replacing expiring leases at higher rents.

In the third quarter we signed 188 new leases for a total of 843,000 gross square feet. The impact was evident as our US occupancy rose 50 basis points to 95.5%, driven by positive net absorption. Significant to note is that while our anchor occupancy is now at a striking 98.2%, up 40 basis points from last quarter and 80 basis points from the same quarter last year, it has been our small shop occupancy which has soared in 2014.

Non-anchor occupancy is now up to 87%, up 70 basis points from last quarter and 230 basis points from the same quarter last year. This growth has been driven by both disposition and positive net absorption. We are seeing a healthy return of local mom and pop businesses mixed with national retailers and franchisor's. We executed 173 small shop deals in the third quarter, 53% of which were pure mom and pop retailers.

Once again, the population of small shop leases was heavy on service based industries such as restaurants, salons and spas, personal fitness and medical practices. 36 restaurant leases were executed this quarter with 20 of the 36 being mom and pop tenants. The other small shop uses driving occupancy include 12 medical leases, 11 wireless communication stores, 7 hair salons, 7 nail salons and 4 real estate related services.

Health and wellness is now a fixture in the open air shopping center industry as we continue to expand relationships with national and regional tenants such as Aspen Dental, The Joint Chiropractic, Orange Theory fitness, Hand and Stone Massage, Massage Envy, Phoenix Salons and Salons by JC. Another interesting trend is the recovery in the real estate service sector. Examples this quarter include deals with Sotheby's Realty and Stuart Title.

The average base rent on a small shop portfolio is now $23.96, up $0.67 year-to-date. Our new leasing spreads were a healthy 10.2%, driven by positive spreads for all tenant types including junior anchors, mid shops and small shops. The average rent per square foot for new leases in the third quarter was $16.98, 26% above our portfolio average base rent. Renewal and option spreads were 6.4%.

Interesting to note that for the past two quarters our renewal spreads have been higher than our option spreads, indicating a jump in market rents. Our combined leasing spreads were 7.1%. The positive impact redevelopment activity is having on the portfolio can be seen in the measurable improvements by a number of our key metrics, most notably same site NOI, where 35% of the growth was attributed to sites with redevelopment projects this quarter.

In the third quarter seven projects were completed with a gross cost of $12.5 million adding incremental NOI of $942,000 for an ROI of 13.3%. Completed projects this quarter include Glenn Square where we redeveloped a large portion of the site in Anchorage, Alaska for Bass Pro. After repositioning the asset, it was sold post quarter end, marking our exit from the Alaskan market. Again, we remain committed to operating a focused yet national portfolio.

Seven more projects were promoted to the active stage this quarter with total gross cost of $9.5 million and a targeted ROI of 12.2%. We are continuing to expand our redevelopment pipeline and this quarter added over $200 million of new projects to the pipeline. Currently our pipeline totals gross costs of over $1.1 billion, up from $919 million last quarter. We now have $324 million or 28% of active redevelopment projects, $596 million or 52% under design and entitlement review, and $230 million or 20% from the evaluation phase.

Our retailer portfolio reviews reinforce the demand for high quality real estate and a significant lack of product in the market today. The supply and demand dynamic is creating a huge demand for high quality redevelopment projects at proven intersections. The value generation at these projects is twofold, as we have created incremental NOI, but we have also added credit tenants and in many cases added a grocery component that further compresses the cap rate on the entire asset, leading to a higher net asset value.

We now have four former K-mart boxes that are active redevelopments: three in Florida and one in St. Louis, where we are demolishing the old boxes and adding tenants such as Whole Foods, TJX and Ross. Two of these were negotiated early terminations. Analyzing the best use of our capital in the current environment continues to have all roads lead to redevelopment.

In closing, I'm encouraged by the progress we have made on our stated strategy as we see it begin to produce ruts. As a bottom up real estate company, our passion is to showcase the strength of our people and our real estate. The entrepreneurial culture of Kimco continues to create value for our shareholders and with a laser focus on what we do best, we are seeing it bear fruit. With that, I will turn it over to Milton.

Milton Cooper - ***Kimco Realty Corporation - Executive Chairman***

Thanks, Conor. I will be very, very brief since our numbers speak for themselves. I'm pleased as punch over our team's performance for this quarter. We are executing and delivering on all metrics and I believe that our transformation has greatly elevated the quality of our portfolio.

As a result, I'm convinced that our portfolio is not only much more resilient to down-turns, but that we have laid the foundation to much stronger long term upside. But what is most, most important is Kimco's talented team of passionate professionals. They are the principal source of my optimism for our future. With that, we are happy to take any questions.

David Bujnicki - ***Kimco Realty Corporation - VP***

We're ready to move to the Q&A portion of the call. We request that you respect the limit of one question so all callers have an opportunity to speak with management. If you have additional questions, you are welcome to rejoin the queue. Gary, you may take the first caller.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question comes from Craig Schmidt with Bank of America.

Craig Schmidt - ***Bank of America - Analyst***

Thank you. Given the near term completion of the Latin American portfolio sales, I'm wondering how the dispositions for 2015 will look in total when we compare them to 2014.

Glenn Cohen - ***Kimco Realty Corporation - CFO***

Craig, it's Glenn. I would say that the amount of dispositions that you'll see next year will be significantly less, probably by about half. Dispositions so far, including Latin America, they are in excess of $1.1 billion, $1.2 billion so far. So it will probably be less than half of that next year, primarily obviously focused on finishing up the US dispositions that we've targeted.

Craig Schmidt - ***Bank of America - Analyst***

And are you seeing a lowering of cap rates on the stuff you're selling as well as the stuff you're looking to acquire?

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

Yes, we're seeing it compressed across all levels. It's pretty apparent that cap rates continue to drift lower, regardless of quality.

Milton Cooper - ***Kimco Realty Corporation - Executive Chairman***

Part of that is driven by financing being available for even the secondary assets out there. The CMBS market is back. I think the estimates are that there will be a $100 billion of CMBS done this year, so that's helping us dispose of the secondary assets.

Craig Schmidt - ***Bank of America - Analyst***

Okay, thank you.

Operator

The next question comes from Christine McElroy with Citi.

Christine McElroy - ***Citi - Analyst***

Hi, good morning, everyone. Looking at expected same-store NOI growth in Q4, would you expect another big impact from redevelopment? And Conor, as you laid out the redevelopment pipeline and everything you're working on, what sort of impact should we expect on a go forward basis over the next year on same-store growth from redevelopment?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

It's a good question. Redevelopment definitely has become a bigger impact on the same site NOI figure and we anticipate that to continue. As we've shown, we've tried to ramp up the redevelopment pipeline. So as we see deliveries come on line, that's where you're going to see it have the biggest impact on our same site NOI. Q4, we do anticipate to have another, call it a third of an impact, on the same site NOI figure and we continue to see that being the case going forward as we deliver projects and continue to add new projects to the pipeline.

Christine McElroy - ***Citi - Analyst***

Thank you.

Operator

The next question comes from Paul Morgan with MLV.

Paul Morgan *- MLV - Analyst*

Hi, good morning. Just sticking with the redevelopments, two things. First, you have roughly the dollar volume of capital that was invested that translates into that 170 basis point impact and then you added, if I got this right, a couple hundred million dollars to the pipeline this quarter, I think you said. That's pretty big change. What was the catalyst there? Do you have any examples of some of the things that got added?

Conor Flynn *- Kimco Realty Corporation - President & COO*

Yes, that's a good question. There were two large projects that were added and one that became active that was added. One was a termination with K-mart in Orlando of a redevelopment project that became active and we have a signed lease with PGA to take a portion of the box and we're negotiating with two junior anchors to take the remaining portion of that asset.

Then we actually enhanced the scale and size of a redevelopment that's under entitlements right now, which is Highland Plaza, which is located in Staten Island. We've elected to make that a much larger redevelopment project and add more density there.

We also added both size and scale to our pentagon project which is also under entitlement, that we're negotiating, shifting entitlements. What was previously entitled as an office redevelopment, we're now switching it to apartments and we're adding size and scale to that property as well. So those were the three major movers.

Paul Morgan *- MLV - Analyst*

Did you have the other part?

Glenn Cohen *- Kimco Realty Corporation - CFO*

Well, we will have to get back to you to get you a specific amount of what was invested that generated the 170 basis point increase in same site. That's just not sitting here offering (inaudible).

Paul Morgan *- MLV - Analyst*

Okay, thanks.

Operator

The next question comes from, and please pardon me for any mispronunciation, Haendel St. Juste with Morgan Stanley.

Haendel St. Juste *- Morgan Stanley - Analyst*

That's okay, Operator. It's not the first time, but I appreciate your effort. Hi, guys. My question is, you've done quite a bit this year in the portfolio transformations, so I'm curious on how you'd grade yourself on the execution, on the pace, the pricing versus your expectations a year ago.

Have they come in on target, better pricing, better pace? Should we assume that going forward your transactions will be more opportunistic in nature, now that the bulk of the work is done as you mentioned earlier in your call? Do you have any specific strategic goals, perhaps increasing NOI or exposure in certain areas of the country as we look into potential investments for 2015 and beyond?

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

Well, let's take them one at a time. If you recall, we decided early this year to accelerate the disposition so we give ourselves high marks for actually accelerating the pace of what we've done. We've been able to move a lot of assets out into admittedly, a good market to sell assets.

So we think we've taken good advantage of the window that's open to sell assets and as buyers get frustrated for the A assets, they're looking at the B assets and some of these secondary cities, so we've been able to play well into that so I think we would give ourselves a high grade for that. In terms of recycling the capital that's coming in, we've always been very selective about what we're buying in a market where prices are quite high.

That's why many of our acquisitions have been from our existing joint ventures where we know the assets and we can save money, both with assumption fees and brokerage fees and transfer costs and things like that by negotiating with our institutional partners, who in many cases have made a nice profit anyway on these assets. So we've been selective. We know it's a good time to be careful in buying assets.

We do like to try to go after assets that have redevelopment upside, so that's one of the things we look at. In an era of low cap rates, that's what we're trying to do. As we get to the end, and we think by the end of 2015 we will be largely done, the disposition program. So we will have a tier 1 portfolio, if you will, that we're very proud of. The amount of recycling capital will slow down.

Conor Flynn - ***Kimco Realty Corporation - President & COO***

On the strategic investments I think you'll continue to see us acquiring in key territories. Boston portfolio this year was a good example of something that we think we can add significant value to and is actually performing ahead of even our own expectations. And then you'll see us acquire more adjacent parcels where we can add significant density to our existing portfolio and play off of assets that we know and love and can use that to grow our redevelopment pipeline.

Haendel St. Juste - ***Morgan Stanley - Analyst***

Appreciate the color.

Operator

The next question comes from Jason White with Green Street Advisors.

Jason White - ***Green Street Advisors - Analyst***

Good morning. I had a question on small shops. You said that mom and pop small shop demand was up quite a bit. I'm wondering if that is truly a change in demand or if it's a change in leasing strategy, whereas you're leasing to those folks now, but potentially you were looking for different tenants before. Also on the same topic, if you can break down the organic leasing and small shops versus the portfolio change with dispositions.

Conor Flynn - ***Kimco Realty Corporation - President & COO***

Yes, it's a good question. We have actually been targeting both the national and franchises as well as the small shop operator, because I think it's important as you look at your offering and your shopping center that you try and offer something that lends itself to the local community, that's also a little different than the normal names you see in every single strip center that you drive by.

It's a strategy of ours that we think it adds a little something extra to connect to the local community, so it's more of a demand function. We really have been pushing that and believe that that's a nice way to add an additional offering to our shopping center. In terms of the break down of the occupancy versus dispositions, it was about half and half in terms of the small shop occupancy on what was pure net absorption versus dispositions.

Jason White - ***Green Street Advisors - Analyst***

Great, thank you.

Milton Cooper - ***Kimco Realty Corporation - Executive Chairman***

One of the catalysts for small shops coming back, in our opinion, is the community banking system has gotten more aggressive about lending to local businesses. They've now recovered nicely from the recession, so they are a little more aggressive about letting a jewelry store expand to a second store or a dry cleaner expand to a second and so forth. Also, as housing recovers a little bit, the home equity lines of credit are being increasingly available, so there are sources of capital now for the mom and pops to grow again.

Jason White - ***Green Street Advisors - Analyst***

Thank you.

Operator

The next question comes from Jim Sullivan with Cowen Group.

Jim Sullivan - ***Cowen Group - Analyst***

Good morning, thank you. A couple of questions relating to redevelopment, that pipeline that you talked about, Conor. With the combination of declining cap rates on transactions and apparently very high yields on your redevelopment, it appears that there's a very significant value creation opportunity here. In the supplement, it is indicated that the range of yields on redevelopment is from a low of 8.5% to a high of 16% or so.

I think on the projects that were completed this quarter, you talked about a number in the middle of that. I wonder, from the standpoint of calculating value creation, is that 12% to 13% number a number on average that you think is fair to use going forward? The second part of the question is, you talked about multi-family potentially being inserted or combined with some of these developments. Does the range of yield that you're talking about include any multi-family products?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

I would guide you that on average, it will be closer to a 10% number. Certain projects obviously, will be higher than that and some will be lower as well. So on an average, I would guide you to the 10% to use that. Definitely there are a few projects within our pipeline that we have started working on that could add a multi-family. Most of them are in the entitlement phase, so we're still analyzing all of our different elements that go into that, what's the best way to approach unlocking the most value.

Those will probably be, depending on what tact we have for those. If we go out with a ground lease to an apartment developer that will actually have a higher yield because it's no cost for us and they will take on the construction and development risk. Or if we decide to do something different, that might also alter the returns there. I think blended as a 10% is still the best way to model our future redevelopment pipeline.

Jim Sullivan - ***Cowen Group - Analyst***

Okay, thank you.

Operator

The next question comes from Rich Moore with RBC Capital Markets.

Rich Moore - ***RBC Capital Markets - Analyst***

Yes, hi. Good morning, guys. Are you seeing any influx of interest from traditional mall tenants in space at your centers?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

We have. That's been a trend that's really been occurring now for probably a few years. It's happening across all grades of malls. The A malls are getting to a point where their occupancy costs are so high that they have now started to test the waters in terms of shifting over to open air shopping centers that are surrounding the mall to see if they can see the sales transfer and still make the business make sense.

The B malls clearly have come under a lot of pressure and there's now less leverage from the Simons of the world to be able to keep the B mall tenants in place where they have them in A malls and in order to keep them in the B malls, they have to have that type of leverage over them. So we are starting to see that as well as I would say, outlet tenants.

Outlet tenants have now started to migrate as well to the open air shopping center. We're seeing that at one of our assets where we recently did a Talbot's outlet as well as a Chico's outlet. You're starting to see a blend come from multiple different disciplines and it's benefiting the open air shopping center in our opinion.

Rich Moore - ***RBC Capital Markets - Analyst***

Who's the most prolific taker of space, Conor?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

Gap is one that clearly is interested in moving and they've seen that that's worked for them in the past. They would be probably the most active of that and Torrid is also active and a few others. The jewelers that come out of the malls as well seem to see some nice sales transfer.

Rich Moore - ***RBC Capital Markets - Analyst***

Great, thank you.

Operator

The next question comes from Ryan Peterson with Sandler O'Neill.

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

Good morning. Just one question: given the retrenchment of the tenure recently, have you guys noticed any change in behavior from your JV partners, either more willing to sell their stakes to you or the reverse, no longer interested in selling them back?

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

Not really. We've been proactive about talking with our institutional partners and the ones that have been game to talk. We're continuing to talk and as we've mentioned in prior calls, we have certain JV partners that are long term holders and are not interested. I think with interest rates trending down yet again, it just shows that cap rates continue to drift down for particularly, the very best properties. So valuations are up and there's a lot of interest in real estate as a hard asset and as something that yields comparatively well with other alternatives.

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

Okay, thank you.

Operator

The next question come from Ki Bin Kim with SunTrust Robinson Humphrey.

Ki Bin Kim - ***SunTrust Robinson Humphrey - Analyst***

Thank you. Good morning, guys. Just a quick question on Sears. Could you just provide a status report on how your dialogue is going on with Sears and talk a little bit about how many boxes you expect to get back in the reasonable future? One thing I noticed in your disclosure was that it seems like you provided some sub lease disclosure in your footnotes regarding Sears doing some of their own sub leasing to other retailers, if you could talk about that as well, thank you.

Ray Edwards - ***Kimco Realty Corporation***

Hi, this is Ray Edwards. Kimco has about 30 sites with Sears and K-mart. The interesting thing is of them, over half of them, they have lease expiration coming up in the next three to five years. For us, we also have an additional benefit that three or four locations, which are in terrific locations, they have no further options. For example, Staten Island, we have one in LA.

We're very excited about our opportunity with those sites and over the years we've had a lot of dialogue with K-mart and Sears regarding opportunities. We did, a few years ago, do a site in Pompano Beach with them where we bought back the location. We've done that and we are talking to them about some other sites as well. We are actually working with them in a joint venture on an old product procurement center to have it rezoned as potential development site.

We've been partners with them or five or six years, so we go back a long way with Sears in trying to seek opportunities with them. Currently, I think our average rent for the K-mart is about $5.30 a foot, so it's a very low rent. We see a lot of upside in a number of our centers, but on the flip side for Sears, they do have a couple locations with us that do great sales. While they are closing stores, I think about 140 or so in this fiscal year, most of them through lease expirations that they've had, a couple deals that they've done.

They are trying to trim their properties, but we have sites with them like in Bridge Hampton we're doing terrific sales. That is a great location that will be very difficult to get back for us, but there are other opportunities for us in the marketplace and we're talking to them about some sites to see if we can do some transactions.

Conor Flynn - ***Kimco Realty Corporation - President & COO***

It's an open dialogue. This is something that's been going on for a long period of time and we continue to see them try to sub lease positions where they can get a nice spread on their existing rent and where we have tenants lined up, we continue to talk to them about potential termination agreements. So we continue to keep the open dialogue and think there will be more coming as we believe it's a nice pipeline of future redevelopment opportunities for us.

Ki Bin Kim - ***SunTrust Robinson Humphrey - Analyst***

You said of the half that's coming due in three to five years, they don't have options on those?

Ray Edwards - ***Kimco Realty Corporation***

On about four or five they don't have any options. The others they do, but some of those stores, it's very possible we could work out a deal for them not to exercise their option if we have a redevelopment opportunity on them. Obviously they are very flexible about sites and where they want to be in five years.

Ki Bin Kim - ***SunTrust Robinson Humphrey - Analyst***

Okay, thank you.

Operator

The next question comes from Linda Tsai with Barclays.

Linda Tsai - ***Barclays*** - ***Analyst***

Yes, hi. The dynamic that you described on why traditional A and B mall tenants are moving to shopping centers, would you consider this a secular trend that is likely not to reverse any time soon? Secondarily, did you see an overall pop in traffic when you introduced these traditional mall-based tenants?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

It's tough to know if it's going reverse itself. I think that at the current state of where we are in the real estate environment, our open air shopping centers have become the preference for millennials and for others because they enjoy the campus type of environment. So as that trend occurs, maybe that will continue, but again it's hard to know whether or not it's going reverse itself.

Right now we think that our suite of tenants that we deal with on a day-to-day basis are extremely healthy and are growing and you can see that their sales continue to perform well. So we think that as we add different types of mall tenants to that, it will enhance the surrounding retail and it will bring a nice dynamic to our shopping centers, but again, it's tough to know if it will reverse.

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

And then you have to keep it in perspective on the numbers. There's about 115,000 neighborhood and community shopping centers and about a thousand malls. So it's not like the thousand malls and the tenants in those thousand malls make a huge dramatic shift into 115,000 properties, so you've just got to keep it in some perspective.

Linda Tsai - ***Barclays*** - ***Analyst***

And then the traffic?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

The traffic as I said, it does enhance our property if we can bring something different to the table. It's nice to be able to mix and match an offering with a Nordstrom Rack of the world, but then with also a potential jeweler from an enclosed mall that will enhance the surrounding retail. So you really want to look at what the local community is in need of and then provide it to them with the best offering of choice.

Linda Tsai - ***Barclays*** - ***Analyst***

Thanks, that's helpful.

Operator

The next question is from Ross Nussbaum with UBS.

Ross Nussbaum - ***UBS - Analyst***

Hi, good morning. It's Jeremy. I'm just wondering, now that you sold a lot of your lower tier assets and your occupancy is back above 95%, should we see the releasing spreads move into double digit territory next year and what is the current mark-to-market for the portfolio?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

You know it's a good point. We definitely have hit, I would say close to stabilized occupancy in our anchor pipeline. With that being said, we do have over 40 anchor leases coming due in the next year without options that we believe are below market. The average base rent on those boxes is well below our anchor average base rent.

We still believe our upside is significant because of our below market rents due to the history of the company being a long term owner of shopping centers. We still have some of these K-marts at average base rents of $5 a foot, so as we mark-to-market that we think there's still significant embedded upside.

Ross Nussbaum - ***UBS - Analyst***

Okay, thanks.

Operator

The next question is a follow-up from Jim Sullivan with Cowen Group.

Jim Sullivan - ***Cowen Group - Analyst***

In David's prepared comments, he talked particularly about the demand growth from restaurants and restaurants haven't been as big of a factor in your tenant list as is the case with some of your peers. I'm just wondering to what extent we can expect that to change, whether this is material or whether this is just at the margin. If it does change, to what extent are these deals more TI intensive?

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

I think it's more of a set the margin right now. The restaurants are definitely still a large portion of the retailer world that's taking space. They are very aggressive on up front parcels. They have taken almost the role of financial institutions or banks that used to be the highest payer for the up front parcel.

When those pads become available, it's usually a bidding frenzy between the Chick-fil-A's of the world and others that really want that up front visibility as well as drive thrus. You're seeing that continue and I would say that as you look over a longer period, you'll see that restaurants continue to be a more substantial part of the portfolio.

Jim Sullivan - ***Cowen Group - Analyst***

Where they take in-line space, are the TI dollars significantly higher?

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

Some will take in-line space. Panera Bread is a good example where we've been successful in putting them on end caps and putting them in a location where typically pad users wouldn't locate. But again, they have also changed their model a little bit now because Panera is now wanting to include a drive through so it just depends on the strength of the real estate.

If they want to be in the location bad enough, they typically tend to change their model and make it work and TIs, I think, is something that, restaurants are definitely the heaviest in terms of TIs. It goes, typically when we have a vacant restaurant, we obviously target to replace it with another restaurant so the TIs aren't as heavy. But when you do a new build-out, there's no question about it, they are the heaviest in TIs.

Milton Cooper - ***Kimco Realty Corporation - Executive Chairman***

But the pricing power is there also from a landlord side so we're able to get good rents to offset that.

Jim Sullivan - ***Cowen Group - Analyst***

Okay, very good.

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

And many of the pad users, many of the restaurants that want the pads, typically prefer to ground lease. So the Chick-fil-A's of the world, those are typically ground leases where the landlord costs are minimal. It's just pad prep.

Jim Sullivan - ***Cowen Group - Analyst***

Okay.

Operator

The next question comes from Lina Rudashevski with JPMorgan.

Lina Rudashevski - ***JPMorgan - Analyst***

Hi there. I was just wondering, when you look to 2015, how do you think net investment activity will compare to this year?

Glenn Cohen - ***Kimco Realty Corporation - CFO***

Well, net investment activity again, we think that our disposition side will be significantly less. The acquisition side probably will be less also. Again, this year, when you look at all of the acquisition activity we've acquired on a gross basis, close to $1.2 billion, primarily buying out joint venture partners.

I would guess it's also going to be scaled back unless there's a great acquisition that's very, very accretive. The cap rate environment is very challenging today. Everything is very, very expensive and we're looking for assets that have real upside and growth in them. Tough to find, so where we look at it today, I would expect it to be somewhat muted than what we've seen this year.

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

As rents continue to increase, that redevelopment pipeline we have will continue to increase and that's our first choice in where we deploy capital.

Conor Flynn - ***Kimco Realty Corporation - President & COO***

I would just add we always get our fair share of acquisitions. We seem to be able to continue to leverage our relationships and our longstanding history, whether it's through with retailers or whether it's through with owners both public and private, we continue to find our fair share of acquisitions and we still have quite a bit of JV opportunities that we think we can harvest next year.

Lina Rudashevski - ***JPMorgan - Analyst***

Okay, and by what magnitude do you think the pace might decrease?

Glenn Cohen - ***Kimco Realty Corporation - CFO***

It's tough to tell. I would think that the, again on the disposition side, I think it will be somewhere around half. Opportunities come and go, so on the acquisition side it's a little tough to tell. We haven't finished modeling out what we expect to attempt to acquire.

But what we've been doing, is to the extent that we have sold assets and raised whatever capital, we've been redeploying that primarily focused on putting it into our redevelopment program, some new developments that we're targeting and then where we can be the buyer of a joint venture partner or buy a one off asset, but tough to figure.

Lina Rudashevski *- JPMorgan - Analyst*

Thank you.

Conor Flynn *- Kimco Realty Corporation - President & COO*

I would just add that it is opportunity driven and at the current market, we prefer not to issue equity. We try to self-fund our developments and acquisitions because we think we're still trading at a discount. So to me that is critical in terms of continuing to push our internal portfolio to the next level by redevelopment and continue to enhance it.

Lina Rudashevski *- JPMorgan - Analyst*

Okay, great. Thanks a lot.

Operator

The next question comes from Tammi Fique with Wells Fargo.

Tammi Fique *- Wells Fargo - Analyst*

Hi. Just following up on the redevelopment discussion. What are the per square foot capita requirements for releasing the anchor boxes like the K-marts that you discussed? Along those same lines, what are the expected deals on those projects? Are they within that 10% range that you discussed? Thank you.

Conor Flynn *- Kimco Realty Corporation - President & COO*

The average cost range on the K-mart boxes, depending on obviously the tenants that are going in, because many times we're demolishing it and starting from scratch. So it can range from $70 to $100 a foot depending on the tenant fit out and the amount of spaces that you're chopping up to really reposition it.

Milton Cooper *- Kimco Realty Corporation - Executive Chairman*

Yes. The point is that we have to divide the box or not.

Tammi Fique *- Wells Fargo - Analyst*

Okay and then the yield --

Dave Henry *- Kimco Realty Corporation - CEO*

From a yield standpoint, we are not doing them if they are only going to yield 3% or 4%. We're really focused on doing these redevelopments where they're going to yield 8% plus.

Conor Flynn *- Kimco Realty Corporation - President & COO*

To that point, we sold two K-marts this quarter where we thought the average base rent was above market and we thought there was limited upside, so we elected to move out of them.

Tammi Fique - ***Wells Fargo - Analyst***

Okay, great. Thank you.

Operator

The next question comes from Greg Schweitzer of DB.

Greg Schweitzer - ***DB - Analyst***

Thanks. Good morning, everyone. Going back to some of the leasing trends: on the mall type tenants, what sort of rents have you been getting versus the $23 small shop ABI average?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

Sorry, could you repeat that? Which tenant?

Greg Schweitzer - ***DB - Analyst***

On the mall type tenants, what sort of rents have you been able to achieve versus the average small shop rent in the portfolio?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

Oh, the mall tenants. They definitely have been paying significantly higher because they are used to mall type rent. That's the beauty of it, is they can still reduce their occupancy costs, but as a whole when retailers look at their rents, it's more of an all-in number. They're looking at their triple nets as well. Our triple nets comparing to mall triple nets are much, much lower. When you look at the all-in comparison, they can continue to pay pretty high rents in the 25 to 30, but our triple nets are lower so an all-in occupancy cost is still achievable for them in terms of transfer.

Greg Schweitzer - ***DB - Analyst***

Okay. Then with the continued traction that you've made on the small shop side, particularly with the mom and pops, any update on where you see overall small shop occupancy over the next one to two years?

Conor Flynn - ***Kimco Realty Corporation - President & COO***

Yes. Our goal is 90%, which is I think very much achievable as the continued trend and the pace continues. We are very, very focused on that and it's something that we are geared up to try and achieve. We've been a leasing company for a long, long time and this is what we do best, so I think we are well positioned to take advantage of that.

Greg Schweitzer - ***DB - Analyst***

Okay, thanks.

Operator

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

David Bujnicki - ***Kimco Realty Corporation - VP***

Thanks, Gary and to everyone that participated on our call today. As a reminder, additional information for the company can be found in our supplemental that is also posted to our website. Have a good day today.

Operator

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