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KIM - Q2 2015 Kimco Realty Corp Earnings Call

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PRESENTATION

Operator

Good day and welcome to Kimco's second quarter 2015 earnings conference call and webcast.

(Operator Instructions)

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

David Bujnicki - *Kimco Realty Corporation - VP*

Thanks, Chad. Good morning, and thank you all for joining Kimco's second quarter 2015 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, CFO. There are also other 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 and uncertainties and other factors. Please refer to the Company's SEC filings that address such factors.

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

We have one housekeeping item to address. Kimco's hosting investor day on December 10 of this year in New York City. We recently sent out invitations for this event and if you did not receive it please contact my office and we'll make sure to get this to you. We have also provided more details on this event with the opportunity to RSVP on our Investor Relations website.

And with that I'll turn the call over to Dave Henry.

David Henry - *Kimco Realty Corporation - CEO*

Good morning, and thank you for joining our call today. We are very pleased to report strong second-quarter financial and operating results. As usual, Glenn and Conor will discuss the specific details while Milton will provide some general thoughts.

Overall both our earnings and property fundamentals look terrific as we continue to upgrade our portfolio and sell lower tier retail assets. Combined with limited new supply and healthy growth of both national discounters and service-oriented retailers, our operating metrics are strong and bode well for future earnings growth. It is particularly encouraging to note another strong quarter of US same-site NOI growth at 3.7%.

Despite modest retail sales figures, national retailers continue their expansion plans which in turn is fueling higher occupancies, redevelopment projects and some limited ground-up development in certain markets. Effective rents are moving up sharply and property values continue to increase. In fact, the only disappointing current trend is the rising disconnect between private market valuations and the implied cap rates, property values of REITs in general.

Retail properties of all quality types and in almost all markets are experiencing strong demand with cap rates continuing to drift down. Wherever possible, Kimco is continuing to take advantage of the robust sales market by selling our remaining second tier assets and redeploying the capital into redeveloping our larger properties and acquiring the equity interest of our institutional partners. In the latter case, we have the advantage of having managed the assets for many years and have, in most cases, a long-term presence in these markets.

With respect to our overall strategy, we have now sold our remaining retail assets in Mexico and we have begun to sell certain Canadian properties as we take steps to reduce our leverage levels which temporarily rose in the first quarter with our purchase of Blackstone's joint venture interest in the former UBS joint venture portfolio. We expect to continue selectively selling Canadian assets, including our remaining Canadian preferred equity investments, to help us achieve our year-end debt target without issuing new equity. Glenn will cover this in more detail during his presentation.

Also, with respect to Canada, property prices remain high despite the negative impact of energy prices on the economy, particularly in Alberta. Our partners in Canada are also making excellent progress replacing the nine target Canadian stores in our portfolio. Five of the nine target leases have been purchased by Lowe's, and Metro grocery store is taking part of a sixth store. There is substantial interest from other retailers in the remaining spaces, including Marshall's, Bed Bath & Beyond H&M and Sport Chek, and I remind everybody that we have US targets guarantee on all nine of the leases.

Switching back to the US, I believe most participants on the call today have noted the recent public IPO filing of Safeway/Albertsons. We are confident that the future monetization of our 9.8% investment will provide an additional source of capital to fund developments, redevelopments, acquisitions and reduce debt. During the quarter, as reported, we also sold approximately 80% of our Supervalu stock at a large gain. Our Plus business continues to truly be a strong plus for us.

Overall, we feel very positive about the underlying fundamentals of our open-air retail properties and the markets we're focusing on. The e-commerce impact on essential goods and services has been modest, and most national retailers have emphasized the benefits of brick and mortar store locations as an essential part of their integrated omni-channel strategy and very necessary for brand exposure. The proof really is in the numbers as occupancy, rents, leasing spreads and renewals are all strong across our sector.

Now I'd like to turn to Glenn, Conor and Milton for their thoughts.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Thanks, Dave, and good morning.

Our second-quarter results were strong with solid execution at the property operating level, and additional contribution from our Plus business. As we reported last night, headline FFO per share, which represents the official NAREIT definition, was $0.44 for the second quarter, a 29.4% increase from the $0.34 level last year. Our strong performance is attributable to an NOI increase of $8 million or $0.02 per share from the shopping center portfolio, and higher transaction income, primarily from the $32.4 million marketable securities gain on the partial sale of our Supervalu investment.

For the six months, headline FFO per share is $0.81, up from the $0.68 per share level for the comparable period last year, a 19.1% increase. FFO as adjusted, or recurring FFO, which excludes nonoperating impairments and transactional income and expense, was $0.37 for the second quarter, up from $0.35 last year, a 5.7% increase. It's worth noting that this level of growth was achieved even with the impact of $900 million of US assets sold, over $400 million of assets sold in Mexico, Latin America and Canada, and the negative impact from currency fluctuations.

This transformational activity had a dilutive impact of $0.06 per share, however, it was more than offset with acquisitions of over $2 billion of high-quality shopping centers, many from our joint venture programs, and reduced debt costs from opportunistic refinancings. For the six months, FFO as adjusted per share is $0.73, up from $0.69 for the comparable period last year, a 5.8% increase.

Our portfolio operating metrics of occupancy, leasing spreads and same site NOI growth continue to deliver strong levels. Our US pro rata occupancy stands at 95.7%, up 70 basis points from a year ago. US leasing spreads continue to increase with new leases up 26%, and renewals and options up 8.7%, for combined positive leasing spreads of 11.9%.

The closely watched metric of US same-site NOI growth was 3.7% for the second quarter driven primarily by minimum rent increases and better credit loss results. Included in the US same-site NOI growth is 50 basis points from redevelopments. For the six months, US same site NOI growth is 3.4% with 40 basis points coming from redevelopments. We're maintaining our US same site NOI guidance range of 3% to 3.5% for the full-year 2015. Combined same-site NOI growth including Canada was 3.4% for the second quarter and 3.2% for the six months, excluding the negative 110 basis point currency impact.

We continue to make progress on our balance sheet metrics with consolidated net debt to recurring EBITDA dropping to 6.3 times from the 6.6 times level at the end of the first quarter. We have raised our full-year disposition guidance range to $800 million to $1.1 billion representing an increase of $250 million to $350 million, which will provide the necessary capital to bring our net debt to recurring EBITDA to 6 times by year-end, without the need for any common equity issuance.

Based on our strong first-half results and expectations for the second half of the year, we are raising our headline FFO per share guidance range to $1.52 to $1.56 from the previous per share range of $1.50 to $1.55. The headline guidance range includes an additional $1 million to $6 million of net transactional income generated during the remainder of the year. We are also increasing our FFO as adjusted per share guidance range to $1.43 to $1.46, from the previous per share guidance range of $1.42 to $1.45. Again, these increased per share guidance levels do not anticipate the need for any common equity issuance.

And with that I'll turn it over to Conor.

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

Thanks, Glenn, and good morning, everyone.

Today I'll start by recapping our major metrics followed by our progress on our acquisitions and dispositions, and finished with updates on our strategic development and redevelopment pipeline. Overall, we continue to see the fundamentals of our business improve in this favorable supply and demand environment. Our retailers and open-air centers, which include off-price soft goods, specialty grocers, fitness and wellness concepts, fast casual restaurants continue with their aggressive expansion plans. Regardless of the interest rate noise that's creating a disconnect between public and private pricing, we're laser focused on execution. These core initiatives include the blocking and tackling of leasing, continuous efforts to improve operations with an eye towards sustainability and finishing off our dispositions by taking advantage of the healthy demand for hard assets with a strong yield.

Turning to our major metrics. The US portfolio maintained occupancy at 95.7%, even with the disposition of over 1.2 million square feet of fully occupied space. Due to the disposition, the small shop occupancy took a slight dip to 88%, a 20 basis point decrease from prior quarter. But we remain confident about the overall improvement in the small-shop leasing environment and the ability to grow occupancy throughout the rest of the year. Anchor absorption made up the difference as it increased to 98.4% by executing new deals with Walmart, Fresh Thyme Farmers Market, Total Wine and Planet Fitness to help keep the overall US occupancy flat over prior quarter.

Our combined spreads for the second quarter were almost 12%, a strong indicator that pricing power exists in our key markets where we see demand outpacing supply. Same-site NOI continues to trend over 3% in the US and the lease-up of small shop vacancies, redevelopments and strong re-leasing spreads will help continue to produce solid results. Our retailer watchlist continues to be a focus as we have seen a few dark clouds on the horizon with the recent bankruptcy filings of RadioShack, Anna's Linens, and A&P. All three combined make up less than 1% of our AVR. Our diverse tenant base allows us to think strategically about the long-term goals of our assets that have poor performing retailers, but have great underlying real estate value.

The average base rent on the portfolio is up 6.1% year-over-year. Our new leases are being signed at an average of over $19, significantly above our current average base rent showcasing the embedded value in the mark to market opportunity we have at Kimco. We continue to execute on our transformation and simplification strategy with the previously announced closing of the KIF II transaction and Montgomery Square in Fort Worth. Both of these transactions further the consolidation of our joint venture properties and give us buying opportunities in a challenging acquisition environment. We also acquired seven adjacent parcels to our tier one portfolio as we look to expand our footprint where we see the opportunity for future redevelopment.

The acquisitions market remains ultra competitive, and a few recent transactions showcased that cap rates continue to fall, especially for high-quality open-air centers in dense markets. While we continue to mine for opportunities, we believe the best use of our capital continues to be redevelopment and strategic development.

The disposition market continues to remain healthy with cap rates continuing to compress across all quality end markets. In the second quarter we sold 13 properties totaling 1.3 million square feet and all were 100% occupied generating $92 million in Kim share proceeds. Buyers of these assets include public institutions, private REITs and local private buyers. Currently we have 28 assets under contract for $170 million, 15 accepted offers totaling $136 million and another 18 assets in the market that will complete our transformation by year-end and produce another $500 million of gross proceeds.

With respect to our redevelopment and development programs, whether it's combing our existing portfolio looking for value add opportunities, assembling adjacent parcels to create future phases, or building a new site from the ground up, our team is working overtime to analyze the highest and best use of the real estate. This modus operandi to evaluating the real estate investment opportunities is what we call strategic development. That said, steady progress continues to be made on our redevelopment and development pipelines.

This quarter we completed 11 redevelopments with gross cost of $34 million. The blended incremental ROI on these projects is 15.5%. The projects were completed under budget and above our revenue expectations representing an increase in ROI of 140 basis points over pro forma. At the same time, seven projects were promoted to the active status.

Included in the category of promotions are Forest Avenue in Staten Island where we will be redeveloping a former National Wholesale Liquidators to make way for a new LA Fitness. And at our downtown Farmington center, in Farmington, Michigan, we will be redeveloping a former Office Depot and Tuesday Morning for a new Fresh Thyme Farmers Market, continuing our efforts to add a grocery component to our centers via redevelopment. Notable completions this quarter include the transformation of two Kmart's in Florida where we added Whole Foods, TJX and Ross among other great retailers.

The redevelopment pipeline targets the highest and best use for each asset with a focus on upgrading the quality of the tenant mix, adding grocery component and adding density via mixed-use to complement the existing retail. The continued expansion of specialty and traditional grocery concepts in our core markets, in addition to the emergence of a number of new off-price, or outlet concepts, bodes well for our redevelopment and strategic development initiatives. These new demand forces are allowing us to unlock below market rents with higher producing retailers that will benefit the net asset value of the portfolio.

Currently the redevelopment pipeline has a gross value of just over $1.1 billion with a total of $268 million in active redevelopment, another $756 million in design and entitlement and $97 million that is under review. For the quarter redevelopment adds 50 basis points to our same-site NOI.

We continue to look for development opportunities that are within our core markets, complement our long-term tier one hold portfolio and provide compelling returns. Despite high retailer demand, sourcing new projects that will be accretive remains challenging due to the rising cost of land associated with the boom in multifamily development. That said, retailer demand for our select development has been strong and we continue to work towards securing a vibrant tenant mix that will create a live, work, play atmosphere that we seek to create on all of our tier one assets. Our forward development projects remain on track and will start to deliver in the second half of 2016.

In closing, at the midpoint of the year we are pleased with our progress on our strategic initiatives, but understand that the execution throughout the second half of the year is key to achieving our goals. We have empowered our operations team to make strides to become the best in class operator of open air shopping centers, and it is nice to see our efforts being recognized.

Commercial Property Executive Magazine named Kimco the number two most effective property manager. And Newsday named Kimco one of the top three greenest REITs in the entire REIT universe, and number one in all of retail. These accomplishments could not have been achieved without the passion and effort of our deep bench of talented individuals that are pushing Kimco to become a next-generation REIT.

And with that I will turn it over to Milton for his final comments.

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

Thanks, Conor. I would once again like to congratulate our team, which is second to none, on an excellent quarter. In particular, I would like to thank Ray Edwards who continues to spearhead our Plus business activities and was instrumental in the Albertsons investment. Ray is just one example of our deep bench strength, and as I've said before, we have great people, great assets and a great future.

On another topic, the recent bankruptcy filing of A&P as it relates to our portfolio got me thinking about the often cited premise that high rents are a proxy for value and quality. Now, with respect to our A&P sites, four leases with below market rents are being signed to other grocers generating a profit to A&P, while two other stores with above market rents will be closing. Now, this admittedly is a small sample, but I think it is telling. A rent that is at market or below is much more sustainable over the long term as the embedded value represents an upside for both landlord and the tenant.

These win-win scenarios for the owner and the retailer are what creates long-term value. As such, I believe that below market rents, and sometimes we're talking about ground rents, should be accorded lower cap rates. Conversely, while higher rents may be an indicator of a quality asset, they may also reflect more risk if the rents aren't sustainable over the long run. When underwriting a potential acquisition, determining of the placement rents for some high-paying tenants is critical to the overall valuation of that site. In short, one size does not fit all.

And now we'd be happy to take any questions.

David Henry - *Kimco Realty Corporation - CEO*

We're ready to move to the question and answer portion of the call. We have a very deep queue so we request that you respect the limit of one question with an appropriate follow-up so all of our callers have an opportunity to speak with management. If you have additional questions, you're welcome to rejoin the queue. Chad, you may take the first caller.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Craig Schmidt, Bank of America.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

I know that Kimco is working on becoming a more urban portfolio. But outside of continuing to concentrate the portfolio around the top metro markets, what are some of the steps you are taking to become a more urban portfolio?

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

I think there are a number of different steps we're taking. We're really divesting of the assets that fall outside of our core urban markets. We're also looking to acquire adjacent parcels to our assets that are within the core urban areas. And we're looking to develop within those core markets. So combining acquisitions with development and redevelopment and dispositions we really are trying to transform the portfolio to become a more urban portfolio.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

And what are you seeing in terms of spreads of either NOI gain or leasing spreads in terms of urban properties versus some of the properties in the second tier cities?

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

It really is a case-by-case analysis. You've got to look at the ones that we continue to try and redevelop even if they're in secondary markets because those will actually return very nice returns. But we are seeing the embedded growth, whether it's the same-site NOI or the leasing spreads, on the mark to markets within the core urban markets definitely are growing at a higher pace. We've seen that the urban markets have higher embedded growth and more demand from our retailers. And that's a real reason why we're focusing on that sector.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Christi McIlroy, Citi.

Christi McElroy - *Citigroup - Analyst*

Conor, just following up on your comments around development, as you look at your portfolio and are considering more larger scale projects, whether densification of existing assets or new development, and you also talked about the large redevelopment pipeline, cliff shadow pipeline looking out, how do you think about the annual pace of realizing some of those opportunities? I think you're in process pipeline is only about 2% to 3% of your gross asset value currently. Do you have a desire to grow that over time?

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

It's a good question. I think breaking it down into two different buckets, redevelopment is one that I'd love to do more of. We're trying to focus and see how we can expand that $1.1 billion pipeline by adding more projects. And clearly, we are doing a good job in terms of expanding that and also delivering on it. You saw that this quarter we did more than last quarter and we continue to try and scale that.

On the development side, we're being very selective on what we try and pick for developments. It really has to be within our key markets. We're trying to develop these long-term tier one assets that have great high-growth embedded in them. And it's very difficult to find ones that check all those boxes. So we want to try and be measured in terms of what we take on in development. But we're also making sure that we try and look for those opportunities because right now, where cap rates are headed, we don't see a lot of opportunity to create a tremendous amount of value from the acquisition market.

So we're looking from our own portfolio, we're looking at acquiring adjacent parcels that may lend itself to larger redevelopments over time, and we're also looking at the development side of it, so I'd like to see us grow on all fronts. That being said, we don't have a target in place that's really -- we're trying to look at every opportunity and make sure it's the right one for Kimco.

Christi McElroy - *Citigroup - Analyst*

And are there any investments that you need to make internally, staffing wise, or are you already set up for growing that redevelopment pipeline?

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

We have already made those investments. We have already staffed up in terms of the development and redevelopment side of the business. We knew very early on that this was going to be a growing pipeline, and made sure that within the regions, that we staffed up accordingly because we were very active in terms of trying to identify this early on and make sure that we get out ahead of it before the development pipeline gets even larger.

Christi McElroy - *Citigroup - Analyst*

Great. Thank you.

Operator

George Auerbach, Credit Suisse.

George Auerbach - *Credit Suisse - Analyst*

You took out the equity [rates] in guidance and replaced it with more asset sales, which makes a lot of sense given where your stock is trading. How do you think about the earnings growth trajectory at the Company in the near term given the backend loading of dispositions? Do you think Kimco can be a mid-single-digit FFO grower next year, or do you see 2016 as being maybe a bit more low growth given the dispositions?

Glenn Cohen - *Kimco Realty Corporation - CFO*

It's Glenn. We started off this year thinking that this was going to really be our bridge year. And we're performing pretty well where you're going to see pretty decent growth come from it. You're right, we are backending some of the sales. But the growth for next year should still be, I would think, comparable to where we are this year.

George Auerbach - *Credit Suisse - Analyst*

Thanks, Glenn. That's helpful. As a follow-up, should we read into next year's disposition volume given the comments on the call about how healthy the transaction markets are? Do you think next year could see a similar level of dispositions or is this year the bulk as we think about the next 18 months?

Glenn Cohen - *Kimco Realty Corporation - CFO*

No. I don't think you're going to see the same level. We're talking about total dispositions at our share of somewhere between $800 million and $1.1 billion for this year. I don't think it will be anywhere near that next year.

Certainly we're finishing up what we've done in the US. You will still see us do some level of dispositions. I think we, as a Company, have been very clear about really looking at every asset and where we see risk in that asset, or a market moving away, we have been trying to be aggressive about selling those assets and really focusing on the tier one portfolio.

George Auerbach - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Ki Bin Kim, SunTrust Robinson Humphrey.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

You guys made an interesting comment about the rent and how that is critical to underwriting the deals. Just curious --and maybe this is more for your anchor spaces, but for what percent of your tenants do you have occupancy cost data and how does that look like, and are there any retailers in your list that might screen as maybe too high of an occupancy cost where you might be at risk going forward?

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

It's a good question. I think occupancy cost is one that we watch closely where we have the sales data available. It's one that is difficult to track when we don't have the sales data, obviously. So, unfortunately, our portfolio doesn't have a tremendous amount of sales data, but where we do, we feel very comfortable with where the occupancy cost sits relative to for the industry standard.

So we think that we actually have some significant embedded mark to market opportunities. Not only from the existing operator, but also just from the open market. So we try and track occupancy costs where we have the sales data. And we also look at the market rent replacement value just in the open market as well.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

So maybe just to follow up on that, so any retailers in your top 20 top 40 list that you think -- not bankrupt or not in trouble today, but may be heading towards that direction next year?

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

I think in our sector we're in the sweet spot right now in terms of the occupancy cost because many of the retailers in our Rolodex are actually producing pretty solid same-store sales. And you'll see that continue I think through this next cycle. So we don't see any other dark clouds on the horizon other than the few watchlist tenants that we've been watching for a long period of time.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you very much.

Operator

Samir Khanal, Evercore.

Samir Khanal - *Evercore ISI - Analyst*

Looks like you been trending at about 3.5% on same-store NOI growth year-to-date, which is at the higher end of the range. But you kept the guidance unchanged and I'm just trying to understand if you're just being conservative due to some of the recent store closings or is it just the fact that you're also facing some tough comps? I know last year in the second half you were 4.5% range, so can you just provide some color around this?

David Henry - *Kimco Realty Corporation - CEO*

Sure. Our bias at this point is more towards the upper end of our range where we've been. But again, you have to look at some of the bankruptcies that have occurred, so we have to be a little cautious from that standpoint, but our bias is towards the upper end of the range. But we don't have enough clarity to sit there and try and raise it at this point.

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

And the leasing velocity continues to be strong. I think that even though you see that our small-shop occupancy decreased this quarter, it was really driven by the dispositions and we actually had more small-shop leasing volume in the second quarter than we did in the first quarter, so we feel pretty optimistic that the fundamentals are there.

Samir Khanal - *Evercore ISI - Analyst*

Right. As a follow-up to that just on the metrics, your spreads are -- on a blended basis, are trending in the low double digits this time, and in the past have been high single digits. One of your peers has been reporting new rent spreads at 40% to 50% increases. Could we see a point where maybe your blended spreads moves up to the mid-to-high teens level as well?

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

I think you've seen our spreads continue to move up. If you look back at the last few quarters you'll continue to see that trend. We feel pretty confident that we are continuing to push pricing where we can. So there is that opportunity to where we are able to recapture space with leases that don't have any more options. That's where you really see the dramatic rent increases, and we do have a few of those coming up, not only this year but in the next few years.

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

And we take some comfort that our sector still is in a recovery mode, rents in many markets are still climbing back to their previous highs. So that gives some tailwind to where we're going.

Samir Khanal - *Evercore ISI - Analyst*

Okay. Thank you.

Operator

Jason White, Green Street Advisors.

Jason White - *Green Street Advisors - Analyst*

Just a quick question on your percentage of anchor space versus small-shop space. You've historically been heavier on the anchor side. I think more than -- or roughly three quarters of your space is anchor space. Curious if that's by design or if that's just what's become of the portfolio over time, and have you think about that going forward?

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

It is something that we actually tout as a differentiator for us because we have 77% of our income coming from our anchors. It's one that we think we can manage effectively because of the investment grade credit ratings that they receive and we are very conscious of watching how they expand or contract. We have national relationships that we can very much take into effect when we're looking toward new projects or new developments, and we think the risk involved with the national anchors is a little bit less than say the small-shops.

So we like the way our portfolio is designed. We continue to develop assets that have a good mix of anchor tenants as well as some restaurants and some small-shop tenants. And you'll see that as we continue to try and push the grocery initiative, we'll start to become a much more grocery anchored portfolio as we're already over 70% grocery anchored.

Jason White - *Green Street Advisors - Analyst*

Okay. So as you look at that anchor space being -- hitting upon it going forward, is it harder ex-redev to put push same-store NOI given that small shops turn faster, so in an up market you can obviously roll those leases quicker and mark to market faster than you can anchors? Is that the trade-off?

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

I think that's a fair statement. I think that the smaller shops definitely have more turnover. More mark to market opportunities. That being said, we saw in the last downturn that the small shops were the ones that got hit the hardest, so we feel like we're trying to position ourselves for the ultimate cycle and we feel pretty confident that where our leases are maturing, where the rents are, we feel like we have significant mark to market opportunities in both small-shop and anchor leases.

Jason White - *Green Street Advisors - Analyst*

Great. Thanks.

Operator

Alexander Goldfarb, Sandler O'Neill.

Alexander Goldfarb - *Sandler O'Neill & Partners - Analyst*

First, nice job on getting the Jericho parcel. Question for you on Canada and harvesting the Albertsons stake. As you guys obviously look to do that and presumably you have this nice gain in Albertsons, do you think that you can do both simultaneously from an efficiency standpoint? Or because of structuring things, you'd have to favor one versus the other in terms of timing?

David Henry - *Kimco Realty Corporation - CEO*

Well, let's take both sequentially. In Canada, it's going to be some time before we sell a number of assets up there. We have a number of joint ventures, and just like the US, we've identified a tier one and a tier two group of assets there. The tier two assets are much easier to put on the market because you generally have consensus with your operating partner on the -- the tier one assets, it's more of a discussion and it will take more time to do. Because we're near the tail-end of this year, what we even start today, some of that's going to fall into next year, so I guess when we look at Canada and harvesting some of those assets in order to provide capital to pay down debt, it's going to be spread over the next couple of years as it is.

When you look at Albertsons, even if the IPO is successful, there will be a lockout period. And Ray can go into that a little bit so that's more of a longer-term harvesting in our mind.

Ray Edwards - *Kimco Realty Corporation - VP*

Yes. On Albertsons, if the IPO does happen in the fall as we hope, there's going to be a minimum of 180 day lockout to sell any of the shares on the company. For us I think the reality with the Albertsons transaction was when we closed on the deal in February nobody thought we'd be, in seven months, going out there with an IPO. So we're way ahead of the curve in our ability to monetize the investment whether -- because we're moving up the IPO timing.

Alexander Goldfarb - *Sandler O'Neill & Partners - Analyst*

Okay. But, Dave, if I hear correctly, then it sounds like the exit from Canada is going to take years, whereas the Albertsons could be quicker subject, obviously after the 180 days, but just subject to normal how the stock does?

David Henry - *Kimco Realty Corporation - CEO*

No. I would actually reverse that. I'm a little more confident that Canada, at least some of those assets, can be done relatively quickly over the next let's call it 18 months. So by the end of next year, there will be a significant amount of monetization going on, which will help us achieve our targets. The IPO and the timing of monetizing that is a little more an estimate of maybe the back end of next year is when that could start to happen.

Ray Edwards - *Kimco Realty Corporation - VP*

It's going to take time. (inaudible) will still own 85% of the company. We have to prudently figure out how we're going to monetize the investment.

Alexander Goldfarb - *Sandler O'Neill & Partners - Analyst*

Okay. Thank you.

Operator

Vincent Chao, Deutsche Bank.

Vincent Chao - *Deutsche Bank - Analyst*

Just sticking with some of the Albertsons type discussion here. Just on the rest of the Supervalu stake, just curious what the plan is there?

David Henry - *Kimco Realty Corporation - CEO*

We'll probably try to monetize it over the balance of the year, which is always our plan.

Vincent Chao - *Deutsche Bank - Analyst*

Okay. And just in terms of Canada performance, curious if you can provide some additional color on what you're seeing at the ground level there? Obviously, the economy is being impacted and you've got to deal with the Target stores, but just curious, what trends you're seeing there, more recently?

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

You've got two headwinds for retailers up there. One is the energy downturn, which has impacted employment. It's impacted -- the whole commodity pricing sector, has impacted Canada and it's led to softening in many respects in terms of consumer confidence, consumer sales and so forth. Secondly, many retailers get their inventory of goods from the US, and the strong US dollar and the quite substantial movement in that US dollar has really hurt retailer margins in many cases, particularly fashion, and that has impacted retail sales, retail margins, retail profitability.

So you've got a few more bankruptcies and liquidations of retailers in Canada right now than we're seeing in the US. So the fundamentals are definitely a little softer in Canada, but we are coming off of 15 years where Canada, in many respects, was stronger than the US in terms of portfolio occupancy and rents. It was a very solid performers performer for us. So it has softened lately. And the Target bankruptcy doesn't help, but there has been some pretty good demand for the space. And you're going to see more of it now that these leases have been rejected.

It opens up more discussions between landlords and users. As an example, many of these Target leases had food restrictions in them. So the ability for the Walmarts of the world and the grocery stores in Canada to bid for the leases, there just wasn't that much demand. So it's not a coincidence that Canadian Tire and Lowes were the two big purchasers of the Target Canada leases because they didn't have to deal with the food issue.

Vincent Chao - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Paul Morgan, Canaccord Genuity.

Paul Morgan - *Canaccord Genuity - Analyst*

Just talking about the Plus business, you've gone through Supervalu and Albertsons, but how are you thinking about the forward-looking side of things? There's lots of retailers looking hard at doing something with their real estate and are you out there proactively approaching retailers? Or if we look at any kind of future deals would they be more of where you step into a club deal like you've done before?

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

Well, it all depends. The club deal, like for Albertsons, when you're buying an operating company you really want to bring in other people who have expertise that we might not have. On that deal we were the experts on the real estate valuation and helped do that, but we needed, in that case, observers to help us with the capital structure of growing concern and bringing the right operator. But we have done deals and we do look at opportunities to do deals directly with retailers.

We've done small deals in the past. We did a deal with Winn-Dixie about a year and half ago. We got a great little shopping center [in Marathon] we developed in a couple years. So we look at reaching out to retailers. We have great relations with them. And most of them know that we've been in this business for -- I've been here for15 years, but Milton's been doing it for 50 years, that we are someone that they can talk to and help them figure out what they can do with their real estate and help monetize it, and really work on as a win-win. We're not out there gorging these retailers because ultimately we want them to be around because we want them to be tenants in our shopping centers, and so we're a very good relationship for them to work with us.

Paul Morgan - *Canaccord Genuity - Analyst*

And we've seen the Sears REIT, Darden, and a lot of people talking about doing REITs and there have been JVs on the mall side with [Sears] in particular. What do you think about this wave of retailer REIT conversions and whether you might play a role there somehow whether it's from a JV perspective or taking investment stake? Do you have any view on that trend?

Ray Edwards - *Kimco Realty Corporation - VP*

Well, part of it is -- one of the issues I've always had with the major sell lease-back is we don't want to take a tenant and make them 8% or 10% of our average base rent if you do some of these transactions, so a lot of these larger deals are really not for us to work on because of that, but like I said, what we did with Winn-Dixie where they had five properties where they're very manageable, very good locations, we can take that.

We can help these guys, but if they're doing a REIT like here at the [Receratage], 80% of those properties are malls. That's not our business. And that's where they work with General Growth and Macerich and others because they really needed them to do any redevelopment because without the mall developers you really can't develop those sites. It's a different animal.

We have bought from Sears, they had a facility -- one of our development deals, the property that we bought from Sears that we closed on last year, so we're selectively looking for deals. I'm not sure we're looking for that headline $100 million, $200 million, $300 million, $500 million deal. I think we're trying to work around the edges and our main business is for Conor and Company to run the main business. So --

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David Henry - *Kimco Realty Corporation - CEO*

We do want to keep the Plus business a plus business, and we're committed to making the best modest bets and we love these one-off opportunities. Ray didn't mention, but when Sims went into bankruptcy we bought one of their better assets out of that. So we like these smaller opportunities to truly be a plus for us. And one of the keys to growing this plus business over the years is to increase the number of relationships we have, not only with retailers, which we already have, but with the private equity and the opportunity funds and the hedge funds, which have their own ways to originate opportunities here. So we want to be the first call from a private equity firm that's tied up a retailer that owns a lot of its own real estate.

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

We did buy a number of key food stores quietly a year or so ago with real estate and the city of New York. So we quietly do our share.

Paul Morgan - *Canaccord Genuity - Analyst*

Great. Thanks.

Operator

Michael Mueller, JPMorgan.

Michael Mueller - *JPMorgan - Analyst*

I know you talked about Canada generally, but did you mention how much of the 2015 increased disposition volume is tied to Canada? And then, Dave, I think you talked about being -- making substantial progress over the next 18 months or so with Canada sales. Can you put some real rough numbers around that?

David Henry - *Kimco Realty Corporation - CEO*

I'll let Glenn take a first shot.

Glenn Cohen - *Kimco Realty Corporation - CFO*

The increase in the disposition guidance, about $200 million of it, the proceeds will come from Canadian sales. So that's part of it. And then as we look at further dispositions, that will come into 2016, but another couple hundred million dollars.

David Henry - *Kimco Realty Corporation - CEO*

Most of our partners do know that we would like to monetize the lower tier assets as a first step. And in some cases we're willing to sell to them some upper tier assets, as an example, you've see us sell three properties to our partner RioCan, which had different plans for those properties than we did over time and we were, in the first instance, we were actually able to trade the interest that they have in a very nice property in Dallas-Fort Worth, where we had done an original joint venture with them, so we were effectively able to buy out there interest in Texas while they bought our interest out in three assets in Canada, so there may be more opportunities to do things like that.

Michael Mueller - *JPMorgan - Analyst*

Okay. Do you expect the 2016 Canada disposition volume to be significantly different from this $200 million this year?

David Henry - *Kimco Realty Corporation - CEO*

I suspect it will be higher, yes.

Michael Mueller - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Jim Sullivan, Cowen.

Jim Sullivan - *Cowen and Company - Analyst*

Question on demand, a two-part question, first of all I think, Conor, you mentioned recently doing a Planet Fitness deal and as you probably know they have their IPO teed up here and there talking about very significant level of expansion. I wonder if you could share with us how their box might differ from an LA Fitness or a 24 Hour Fitness box, and what your appetite is to do more deals with them? I think you mentioned the category as a growth segment. And then, secondly, with regard to small shop occupancy, you've talked before about your clicks to bricks initiative. I wonder if you could just give us an update on any progress or notable deals you've done there that give you grounds for optimism?

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

Sure. On Planet Fitness, they have been aggressive actually over the past, I would call it, two to three years. So their expansion plans continue. Their pricing point is lower than LA Fitness. So in certain demographics, they're the perfect user. They do bring in a lot of traffic.

And we've seen, actually, from a cotenant side of it, a lot of our retailers who were first against the health club have actually come around, and Sprouts for example is one that actually likes the gym to come into the shopping center because it's the whole health-conscious type customer that they are looking to go after. So you're starting to see that the health clubs become more of an integral part of that live, work, play environment that we're trying to create. And I think Planet Fitness has done a good job in terms of expansion and what they're looking to do going forward.

That being said, they're in that size where we have so much demand right now, we're at 98.4% in our spaces over 10,000 square feet. And Planet Fitness will be bidding against a lot of these guys that are looking to come in for that same size box. So I see that as being a headwind for their expansion plans, but they do run a great operation and we have a number of deals with them and a number of more deals in the pipeline.

And then on the clicks to bricks question, this is something we've been tracking now for probably close to five years. And it's a program where we have been targeting fewer online retailers to come into the physical shopping center world. The transformation of that e-commerce to the bricks and mortar space has been slow. But you're seeing it start to speed up now with some of the pure online retailers now opening physical stores.

It hasn't necessarily been in the open-air shopping center sector. It's been more in the high-street retail corridors as they are looking to jump into the Soho's of the world to showcase their brand and to have a space to show off their goods. That being said, there's rumors of Amazon developing a store that we're watching closely in California, that actually has a drive-through attached to it. So if that come to fruition, it may open a whole slew of new operators to come into our shopping center that would create even more demand sources for us.

So we're watching it closely. We're encouraging some of the mom and pop online players to come into our shopping centers, but it hasn't been material of late.

Jim Sullivan - *Cowen and Company - Analyst*

Good. Thank you.

Operator

Rich Moore, RBC.

Rich Moore - *RBC Capital Markets - Analyst*

Conor, I missed a little of your initial presentation. I got cut off, but did you mention if your small-shop leasing target is still 90% for next year? Is that still what you're headed toward?

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

That's correct.

Rich Moore - *RBC Capital Markets - Analyst*

Okay. And in getting to that, is it really just a matter of demand for new store openings and how hard you guys work? Or is it also partly getting some of these redevelopments done, maybe adding some anchors to some centers, that kind of thing before you can get that kind of push?

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

I think it's a combination of both. I think our leasing team is really focused on the small shops because we all know that's really what we have left to push in terms of our same-side NOI growth, so we have changed some incentives around to make sure that -- before we might have been more heavily weighted in incentives toward leasing bigger boxes, we're now shifting that towards the small shops.

And we're also looking at our redevelopments. When we take down portions of shopping centers, typically it's the junior anchors that are stepping up and paying the rents to get the space. So there are -- it's a combination of both and yet we're still doing close to 150 small-shop deals a quarter. We don't see that slowing down. It's about 50-50 split between regional and national small-shop tenants and the mom and pop tenants, and it's a lot of service-based users that we think are sticky. The ones that will stay in our shopping centers for the long haul and that's where we see significant annual increase, as well, coming from the small shops.

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

From a 50,000-foot level, Rich, we talked about this before, but the whole environment for small shops and small businesses is starting to improve. Finally the community banks are lending again and your local jewelry store, your local dry cleaner, they're looking to expand again. So the bigger national retailers recovered first coming out of the Great Recession, if you will, and now small business is beginning to find its legs and so we benefit across the sector from that as well.

Rich Moore - *RBC Capital Markets - Analyst*

Okay. Thank you, guys.

Operator

Haendel St. Juste, Morgan Stanley.

Haendel St. Juste - *Morgan Stanley - Analyst*

Question on the JV. Obviously, you've done a lot of efforts here the last your or two simplifying the platform. The three big JVs left here, looks like Prudential, Care and RioCan, which maybe you're starting to address here in Canada already, but question is what's the status of your conversations with those partners? It looks like the Prud JV has a lot of debt maturities in 2016. Wondering if that could be a catalyst of buying in some of that JV?

Milton Cooper - *Kimco Realty Corporation - Executive Chairman*

Pru has made it pretty clear that they're not interested in disposing of their interest in most of the properties we have together with them. They have a lot of money to put to work. They're not interested in monetizing at this point in time and in fact they've been very cooperative in terms of paying off debt on some of the properties that we have together because they like to put out more money so some of the properties are scheduled to become unencumbered.

That said, they've also agreed to our concept where we truly have secondary assets in tertiary markets that those should be put on the market and they've cooperated with us in selling those to third parties. But in terms of buying out there interest in certain properties, it's probably not going to happen in the near future.

RioCan, we have talked about and I think you'll see that joint venture be reduced over time as we begin to identify certain assets that we both think should be sold as well as certain assets where they have plans to convert more to a mixed-use or redevelop and those might be opportunities for us to reduce the size of our joint venture. That said, they've been a wonderful partner all the way along.

In terms of Care, we have had some discussions but this point, they're inconclusive and as you probably know, New York Common is going through a change of leadership on the real estate side, so it will be a while before they really settle out on their long-term strategy I believe.

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

But they've also been very cooperative and agreeable about selling assets that we don't believe fit in that tier one category.

Haendel St. Juste - *Morgan Stanley - Analyst*

Appreciate the color. A follow-up if I may, on redev. I think, Conor, you mentioned earlier pipeline today at $1.1 billion, curious as to how big the current opportunity, the redev opportunity, within your current portfolio is today, ballpark? How large you'd be comfortable growing the redev pipeline either in total dollars, or as a percentage of GAV?

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

The $1.1 billion is a gross value that includes the JV properties, so we've gone pretty deep into each and every asset to see what we can do in terms of unlocking value. Our redevelopment definition is very simple. It is changing the square footage, changing the footprint of the asset, so adding density is one where we're laser focused on trying to add more to the pipeline.

We continue to try and see what we can add to it, but it really is typically based off of opportunities that come as we go through the year. So with lease maturities, if tenants for example, don't exercise options, all of a sudden that triggers redeveloped opportunity that we didn't necessarily think was actionable. So one just recently happened and we're adding it to the redevelopment pipeline in addition to potentially looking for more of a mixed-use approach to it as well as looking at other opportunities that we have yet to really add to the redevelopment pipeline. So that's how we look at it.

Haendel St. Juste - *Morgan Stanley - Analyst*

Appreciate it.

Operator

Christopher Lucas, Capital One Securities.

Christopher Lucas - *Capital One Securities - Analyst*

A follow-up on the last question, Conor, you did talk about ways of growing the redevelopment program beyond the $1.1 billion, and I guess given the success you've had so far, I was just wondering if one of the ways you can grow that is to literally just change how you're thinking about the underwriting given, again, the success you had so far?

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

It's a good point. Rents are definitely moving up, so the returns that come along with those higher rents definitely justify more projects. And we're looking at that in addition to adding potentially some mixed-use opportunities that we have yet to really add, so we're trying to dive through the portfolio and also looking at new acquisitions that have redevelopment potential, so some of the ones we've been looking at I think now have to have a redevelopment component for us to really get excited about it. So you're right on there, that as we look at returns, we might start to look at other opportunities that, as rents have moved up, now start to make more sense.

Christopher Lucas - *Capital One Securities - Analyst*

Great. Thanks a lot.

Operator

George Auerbach, Credit Suisse.

George Auerbach - *Credit Suisse - Analyst*

Just quickly on the sales in Canada and the Albertsons stake over time. Is there any way to shield or manage through the taxable gains on those investments or do you just pay the taxes and move on and that's it?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Well, actually we do have some room in terms of --

David Henry - *Kimco Realty Corporation - CEO*

Yes, in Canada -- so there's two components to the tax. There is a Canadian tax that has to get paid on the gains. So you do have an actual cash tax that occurs in Canada and then there's the remaining piece that will flow back into our US entity. So it's all a matter of how we shield that.

Now, we have done a lot of analysis about doing [cost six] studies and other thing like that, repair regs analysis, that give us a lot more depreciation expense from a tax standpoint to help manage it. In addition, we've been doing a lot more 1031 exchanges on the assets that we've sold in the US, so although we've been reporting a lot of gains in the US, from a taxable standpoint there actually being deferred. So we have a pretty sizable bucket to be able to deal with the gains that will come.

George Auerbach - *Credit Suisse - Analyst*

Great. Thank you.

Operator

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

David Bujnicki - *Kimco Realty Corporation - VP*

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

Operator

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

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