Fitch Ratings

Fitch Rates Kimco's 2022 Unsecured Bonds 'BBB+'

Fitch Ratings-New York-08 October 2015: Fitch Ratings has assigned a 'BBB+' rating to the $500 million of 2022 3.4% unsecured notes issued by Kimco Realty Corporation (NYSE: KIM). The notes were priced at 99.319% of par to yield 3.51%, a 175 basis point spread to the benchmark Treasury. Fitch expects the net proceeds will be used to repay recent and upcoming debt maturities. A full list of Fitch's current ratings for KIM follows at the end of the release.

KEY RATING DRIVERS

The ratings reflect Kimco's large, diversified portfolio, its generally consistent and conservative credit metrics over the past five years and its demonstrated strong access to capital. Kimco's elevated leverage due to the Kimstone transaction is the largest rating constraint. The Stable Outlook recognizes that the issuer's long-term target capitalization is unchanged despite the protracted amount of time that may be required for KIM to reduce leverage back to the mid-5x range.

KIMSTONE TRANSACTION INITIALLY STRESSES LEVERAGE & LIQUIDITY

In February 2015, Kimco acquired Blackstone's 67% interest in an unconsolidated joint venture (Kimstone) for $925 million including assumed debt. Fitch estimates the company paid a 5.5% - 6% cap rate with a gross value of $1.4 billion. The transaction causes leverage to increase by approximately a full turn to 6.3x pro forma at Dec. 31, 2014, which is at the high end of the 5x - 6.5x range considered appropriate for Kimco's 'BBB+' rating and compares to 5.4x for both 2014 and 2013.

Fitch projects KIM's leverage could sustain above 6x through 2017 due to the transaction. However, KIM has committed to reduce leverage back to its historical range before 2017. Fitch defines leverage as debt minus readily available cash to recurring operating EBITDA including Fitch's assumption for recurring cash distributions from joint venture operations.

Kimco's liquidity is adequate at 1.2x for the period July 1, 2015-Dec. 31, 2016 pro forma for the recent unsecured bond issuance. The $500 million unsecured notes issuance relieves some of the liquidity that was initially stressed by the Kimstone transaction. Fitch calculates liquidity coverage as sources (unrestricted cash, availability under the unsecured revolving credit facility, estimated proceeds from the Canadian asset sales and retained cash flow from operations after dividends) divided by uses (debt maturities, development expenditures and recurring maintenance capital expenditures. In general, Fitch views Kimco as having above-average access to capital through-the-cycle, which is a key qualitative factor supporting the ratings.

Fitch projects that Kimco's fixed charge coverage (FCC) will remain strong at 2.8x through 2017, consistent with recent periods. Fitch defines FCC as recurring operating EBITDA including Fitch's estimate of recurring cash distributions from joint venture operations less straight-line rent and recurring maintenance capital expenditures to interest and preferred stock dividends.

DURABLE OPERATING CASHFLOWS FROM ENVIRONMENT & DIVERSIFICATION

The scale, diversification and lease staggering of Kimco's portfolio provide for generally durable cash flows from operations. Approximately 11.9% of leases mature on average in 2016 through 2018 and only 2.9% on average assuming tenant extension options are exercised before considering month-to-month leases. Leasing spreads in the U.S. same-space portfolio accelerated in 2014 and 2Q15 to a blended 8.8% and 11.9%, respectively as compared to 7.7% in 2013.

Limited new supply for shopping centers and a generally accommodative economic backdrop have supported positive growth as measured by same-store net operating income (SSNOI) and same-store occupancy. Fitch has assumed SSNOI will grow 3.5% in both 2015 and 2016 as compared to 3.7% in 2Q15, 3.3% in 2014 and 3.8% in 2013 for the U.S. same-space portfolio.

ADEQUATE CONTINGENT LIQUIDITY

Kimco maintains adequate contingent liquidity in the form of unencumbered assets which covered unsecured debt (UA / UD) net of readily available cash by 2.1x at a stressed 8% cap rate. Kimco's UA/UD ratio has steadily increased over the past few years as it replaced non-income producing/non-real estate assets with income producing unencumbered assets, and as unencumbered assets in joint ventures were consolidated or purchased outright.

Fitch also estimates Kimco will retain approximately $75 million to $150 million per year of cashflow from operations based on its dividend payout ratio (77% of adjusted funds from operations [AFFO]). Kimco's payout ratio is consistent with the median in Fitch's rated universe.

INCREASING DEVELOPMENT EXPOSURE

Kimco has increased its development exposure after curtailing its activities during the last downturn and focusing on redevelopment and expansion projects until recently during this recovery. At June 30, 2015, unfunded development costs remaining (including redevelopment) comprised 2.8% of gross assets which remains manageable but is increasingly focused on development projects.

STABLE OUTLOOK

The Stable Outlook reflects Fitch's expectation that the issuer's long-term capitalization target is unchanged and that it will restore leverage back to the mid-5x range. The Outlook also reflects the accommodative operating environment for the sector being offset in part by increasing development exposure.

PREFERRED STOCK NOTCHING

The two-notch differential between Kimco's IDR and its preferred stock rating is consistent with Fitch's criteria for corporate entities with an IDR of 'BBB+'. Based on Fitch's criteria report, 'Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis,' dated Nov. 25, 2014, the company's preferred stock is deeply subordinated and has loss absorption elements that would likely result in poor recoveries in the event of a corporate default.

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for KIM include:
--SSNOI growth of 3.5% in 2015 and 2016 and 1.7% in 2017;
--General and administrative expenses growth to approximate 12% - 13% of recurring operating EBITDA;
--Recurring maintenance capital expenditures grow to approximate 11% - 12% of recurring operating EBITDA;
--Development expenditures of approximately $260 million and redevelopment expenditures of $225 million through 2017;
--The disposition of $750 million of assets at a 7% yield in 2015. Fitch has not explicitly assumed any

net transactional activity in 2016 or 2017, noting that volume over the past three years has generally balanced acquisitions and dispositions;
--Equity issuance of $500 million in 2015 though Fitch notes issuance is at management's discretion and the common shares are currently trading at a 3% discount to consensus mean net asset value according to SNL Financial LC and dividends per share of $0.97, $1.01 and $1.05 in 2015, 2016 and 2017, respectively;
--Unsecured debt issuances of $300 million in the second half of 2015 (i.e. the rated offering) and $600 million in 2016 and 2017 to repay secured and unsecured maturities.

RATING SENSITIVITIES

Fitch does not envision positive momentum on Kimco's ratings and/or Outlook; however, the following factors may have a positive impact:
--Fitch's expectation of FCC sustaining above 2.5x (coverage was 2.8x for 2Q15);
--Fitch's expectation of net debt-to-recurring operating EBITDA sustaining below 5x (leverage was 6.3x for the TTM ended June 30, 2015).

The following factors may have a negative impact on Kimco's ratings and/or Outlook:
--Fitch's expectation of FCC sustaining below 2x;
--Fitch's expectation of leverage sustaining above 6.5x.

FULL LIST OF RATING ACTIONS

Fitch currently rates KIM as follows:

Kimco Realty Corporation
--IDR at 'BBB+';
--Unsecured revolving credit facility at 'BBB+';
--Senior unsecured term loan at 'BBB+';
--Senior unsecured notes at 'BBB+';
--Preferred stock at 'BBB-'.

Kimco North Trust III:
--Senior unsecured guaranteed notes at 'BBB+'.

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Relevant Committee Date: March 27, 2015

Additional information is available on www.fitchratings.com

The following issuer(s) did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure: Kimco Realty Corporation

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362&cft=0)
Recovery Ratings and Notching Criteria for Equity REITs (pub. 18 Nov 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=813628&cft=0)
Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis (pub. 25 Nov 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=821568&cft=0)

Additional Disclosures
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=992031)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)