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KIM - Q2 2016 Kimco Realty Corp Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Kimco second-quarter 2016 earnings conference call.

(Operator Instructions)

Please note this event is being recorded.

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

David Bujnicki *- Kimco Realty Corporation - IR*

Thanks and good morning and thank you for joining Kimco's second-quarter earnings call.

With me on the call this morning is Conor Flynn, the President and Chief Executive Officer; Ross Cooper, our Chief Investment Officer; and Glenn Cohen, our CFO. In addition, other members of our executive team are also available to address questions at the conclusion of our prepared remarks, including Milton, our Executive Chairman; Dave Jamison, our EVP of Asset Management Operations; and Ray Edwards, our Executive Vice President of Retailer Services.

As a reminder, statements made during the course of this call may be deemed forward-looking. It's 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.

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. A reconciliation of these non-GAAP financial measures are available on our website.

With that, I'll turn the call over to Conor.

Conor Flynn - *Kimco Realty Corporation - President and CEO*

Thanks, Dave, and good morning, everyone.

Today we will report on major milestones that encompass our 2020 vision. I will give a quick update on the execution of our strategic goals, quarterly metrics and development and redevelopment pipelines before turning it over to Ross to cover acquisitions and dispositions, followed by Glenn to discuss our financial results.

We are making great strides, creating long-term shareholder value as we continue to simplify and strengthen our business. With our recent Canadian dispositions, our strategic exit from Canada is over 90% complete and we have further reduced our joint venture investment. More specifically, the number of properties in our JV portfolio now stands at 152. That is compared to 551 sites in 2010, a decrease of 72%. The overall value of the joint venture portfolio is currently $5.4 billion gross, as compared to $12.3 billion gross in 2010, a decrease of 56%.

We are further simplifying our capital structure by redeeming our Canadian bonds to coincide with our exit of Canada. We will also prepay an unsecured bond and a portion of our US mortgages that come due in 2017 to take full advantage of the all-time low rate environment and further extend our maturity profile.

We continue to monitor and evaluate opportunities in the capital markets, including the use of our ATM to improve the balance sheet as we strive to achieve our publicly stated goal of achieving an A-minus A3 credit rating. All of these efforts will put Kimco in a position of strength for the next cycle and move us closer to our 2020 vision. Internally, we will be merging our primary taxable REIT subsidiary into the parent company, thus transferring long-term hold assets into the REIT structure, to simplify and make our holdings more efficient. Overall, the strong fundamentals of high-quality open-air centers continue to demonstrate why we believe we are, to use Milton's words, in the sweet spot of retail.

Supply and demand remain in check, with limited new development on the horizon. Retailers with new formats and off-price specialty and traditional grocers, pet stores, home-improvement, fitness, wellness and beauty are all looking to grow store count. Our occupancy is up to 96% with our anchor boxes at 98.3% and our small shop occupancy improving to 89.2%. Achieving an eight-year high in occupancy could not have been accomplished without the incredible effort of our entire team. New deal spreads improved to 29.8%, demonstrating the portfolio's mark-to-market opportunity. Renewals and options also improved 10.7% to produce an impressive combined leasing spread of 16.2%, our highest in three years. Same-site NOI increased 3.1%, which includes 30 basis points from redevelopment.

Notwithstanding this success, the Sports Authority liquidation will create some near-term headwinds but will result in long-term positives. Our exposure to Sports Authority has been reduced, with retailers acquiring two leases at auction, reducing our exposure to 1.1% of ABR. We also seized the opportunity to buy back the lease at our Farmington, Connecticut, property which has 52 years of term remaining at a $4 rent, which was dramatically below market. The numerous auction delays and false starts resulted in a shallow pool of retailers that were willing to pay the unpaid pre-petition rent and live by the existing lease terms.

Throughout the auction process, we have been proactively marketing the 23 remaining boxes and have one fully executed lease and LOIs working on all remaining locations. We see further opportunity to add a grocery component in certain locations and the ability to mark-to-market undervalued leases.

Based upon the interest we are receiving, we are optimistic the absorption of these spaces will be swift over the next 6 to 12 months. We are maintaining our full-year guidance for same-site NOI growth and occupancy, based on a re-forecast that incorporates the impact from the Sports Authority liquidation and demand for our high-quality real estate.

Progress continues on our strategic development and redevelopment pipeline, especially on our larger projects that we are calling the signature series. Whole Foods in Wynnewood, PA, is now installing fixtures in their new store and is set to open in September. Grant Parkway in Houston is on schedule and is now 89% pre-leased. The target pad was turned over on June 10 and all seven junior anchor leases are fully executed.

Grand Parkway Phase 2 is also moving forward, with two of the three anchor boxes fully executed, with Academy Sports and Hobby Lobby. Dania Pointe in the Ft. Lauderdale MSA is also on schedule. The Costco pad is being prepped, with turnover set for second quarter of 2017. Phase 2 of Dania has kicked off pre-leasing and we are happy to announce the fully executed anchor lease with H&M.

Our major redevelopments are also gaining traction, highlighted by the new parking garage at Pentagon, which is nearing completion. This will allow us to move forward with the Phase 1 densifications. Our redevelopments for the quarter are projected to produce 9.9% return on invested capital and we continue to believe this growing pipeline is a major differentiator for Kimco as we're just getting started with the repositioning of our top assets.

As you can see, our 2020 vision is coming more and more into focus as we create a portfolio of assets that is both resilient to economic downturns and at the same time able to attract the best tenants to generate quality earnings growth and expand our overall net asset value. Our portfolio is focused and concentrated in the best US markets with the best demographics.

Our shopping centers strike a wonderful balance, with off-price and grocer anchors and just the right mix of small shop tenants. These are the types of centers that consumers return to again and again, in good times and bad, whether they are looking to restock the refrigerator at Albertsons, treasure hunt at TJX, or get a haircut or manicure. When you add our signature series of development and redevelopment projects to this solid defensive foundation, the portfolios changing profile is dramatic, both in quality and value.

Ross will now walk you through our transactions for the quarter.

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

Thanks, Conor.

With the execution of our second-quarter transaction activity completed, we took another big step towards our goals of reducing leverage, joint ventures and non-core market ownership. The largest driver of our progress was the continued and accelerated pace of our Canadian exit, highlighted by the Anthem transaction, which closed last month. Coupled with the sale of several additional Canadian assets, we have now sold over 90% of our Canadian LOI with the remainder to be sold by year end.

In the US we took advantage of the strong investor demand for shopping centers with the disposition of 12 assets for $220 million. This included the sale of our last remaining asset in Mississippi as well as other non-core assets in markets such as Council Bluff, Iowa, and Overland Park, Kansas. The blended cap rate on the dispositions for the quarter was 6.6%, which was in line with our expectations. We will continue to selectively prune the portfolio to enhance the overall quality on a go-forward basis.

On the acquisition side, we remain laser focused on high-quality assets with both long- and short-term growth located within strong demographic areas. As previously announced, the acquisition of our partners share in Oakwood Plaza and Dania not only provides Kimco with 100% ownership of two of the largest and highest quality projects in the portfolio, but also further achieves the goal of JV reduction.

Additionally, we are excited to announce the planned acquisition of the Kentlands Marketplace, a 250,000 square-foot Whole Food's anchored center in Gaithersburg, Maryland. This Metro DC asset provides a unique opportunity to own a highly coveted infill asset with excellent grocery sales of almost $1,300 a square foot and also has significant near-term upside and redevelopment potential. Closing is anticipated in the next couple of weeks and we look forward to sharing our plans for this asset.

Our transactional activity for the year have been front loaded with asset sales as we have sold $821 million Kim share, which bumped against the low end of our initial 2016 disposition range of $825 million to $975 million. With over 20 assets either under contract with accepted offers or in the market, we are increasing our full-year 2016 disposition range to $1 billion to $1.15 billion. Our 2016 estimate for acquisitions remains intact at $450 million to $550 million, as we will have purchased approximately $250 million of shopping centers including the pending Kentlands acquisition.

The environment for quality real estate remains hyper competitive, but we continue to evaluate unique opportunities and pick our spots. Capital is abundant, with significant equity being placed by foreign investors, pension funds and life companies, private equity and REITs. Debt is readily available from CMBS and life companies, with historically low rates and yields are expected to stay low for the near future. Recent sub-5% cap rates on open-air shopping center transactions have closed in New York New Jersey Metro, Los Angeles, San Diego, San Francisco, Austin, Texas, Washington DC and South Florida.

These are all primary markets for Kimco, where we have a strong established presence. Single-tenant ground leases with strong credit are trading in the low 4% range and even sub-4% in some cases, which bodes well for the value of our long-term ground leases with the likes of Walmart, Costco, Home Depot and others.

With that I'm happy to pass it over to Glen to provide detail on the financials.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Thanks, Ross, and good morning.

We continue to execute on the key components of our 2020 vision that Conor and Ross described. Our 2020 vision is focused on both the left side of the balance sheet, as well as the right side as we continue to further improve our debt metrics and balance sheet position. Now for some color on the quarter and further detail regarding the three strategic initiatives we announced last night, which we believe will further improve our capital structure, as well as our recurring growth profile and tax efficiency in both the short term and long term.

Headline FFO per share, which represents the official NAREIT definition, was $0.38 for the second quarter, meeting first-call consensus. As a reminder, our consensus estimate is based on NAREIT-defined FFO. Included in the headline result is $0.01 per share attributable to profit participation from the sale of a preferred equity investment. Headline FFO per share for the second quarter last year was $0.44, which included $0.08 per share attributable to the gain on the sale of our marketable security investment in SuperValu.

FFO as adjusted or recurring FFO, which excludes transactional income and expense and nonoperating impairments, was $0.37 per diluted share for the second quarter, the same level as last year. We achieved this level despite a $17 million decrease in net operating income, primarily attributable to the significant Canadian and US property dispositions over the past year.

This was largely offset by a $15 million reduction in financing costs related to lower debt levels, lower interest rates on debt refinancing and the redemption of the 6.9% preferred stock last year. For the six months FFO as adjusted per share was $0.74, up from $0.73 for the comparable period last year, and on target with our recurring forecast and guidance expectations.

We ended the second quarter with consolidated net debt to recurring EBITDA of 5.7 times, down from 6.3 times a year ago. In addition, our net debt to EBITDA on a look-through basis is 6.9 times, which includes our $800 million of preferred stock, which is all callable next year, and our pro-rata share of joint venture debt which, by the way, is down to $843 million from a peak of $3 billion.

The 6.9 times level is at the high end of our target range of 6.4 times to 6.9 times that we announced at our 2020 vision Investor Day. We improved the debt maturity profile with the addition of $150 million to our 4.25% 30-year bond and we also issued $38.9 million of common equity through our ATM program in the early part of the quarter.

Now for some additional color on the three strategic initiatives announced last night. Initiative one, redeeming our outstanding Canadian bonds, as Ross mentioned, with the completed sale of Canadian assets representing over 90% of our Canadian NOI, it's no longer necessary to have the Canadian-denominated bonds outstanding. This is clearly an opportunity for us to further de-lever the balance sheet. As such, we will be redeeming the Canadian denominated $350 million of bonds at the end of August using the proceeds from the Canadian sales, which have also produced over $111 million of non-FFO gains year to date. We expect to incur a prepayment charge of approximately $26 million, or $0.06 per share, which will impact net income and headline FFO in the third quarter.

Initiative two, the prepayment of US debt that is due in 2017, as part of reaching our stated goal of increasing our unsecured credit ratings to A-minus and A3, we want to further extend our debt maturity profile, further improve our fixed charge and debt service coverage ratios and increase our unencumbered asset pool. To this end we will be redeeming our $290.9 million 5.7% bond during 2017 and prepaying $137 million of 6.32% mortgage debt that is due in December of 2017. The funding of the aggregate principal amount of $427.9 million and the prepayment charge of $22 million, or $0.05 per share, which will impact net income and headline FFO, will be made with a combination of proceeds from asset sales, availability under our revolving credit facility and depending on market conditions, issuance of an unsecured bonds.

Initiative three, merging our primary taxable REIT subsidiary Kimco Realty Services in Kimco Realty Corporation, this tax-free merger will effectively transfer the ownership of our Albertsons investment and over 30 shopping center assets, many of which were developed in our former merchant building business but retained and today are considered long-term hold properties. This transaction will provide us greater tax efficiency as well as reduce our administrative costs. In conjunction with the merger, which is expected to be completed in the third quarter, generally accepted accounting principles require the establishment of a valuation reserve when it is more likely than not that deferred tax assets will not be realized. As such, a noncash charge against net income of $66 million, or $0.16 per share, and headline FFO of $41 million, or $0.10 per share, respectively, will be recorded.

The difference between the net income charge and FFO charge is related to the tax impact from impairments previously taken on operating properties, which are excluded from FFO. Subsequent to the merger, a portion of this valuation reserve may no longer be required in the event certain taxable transactions related to these assets occur. This would include a monetization of our Albertsons investment.

In total, the three initiatives just discussed are expected have total impact on net income of approximately $114 million, or $0.27 per share, and our headline FFO of $89 million, or $0.21 per share. As a result of the charges, we are revising our headline FFO per share guidance range to $1.34 to $1.42, with a midpoint of $1.38 from the previous headline FFO per share guidance range of $1.54 to $1.62 with a midpoint of $1.58. We continue to anticipate that the bulk of our transaction income will occur in the fourth quarter.

We are reaffirming our FFO as adjusted, or recurring FFO per share, guidance range of $1.48 to $1.52, with a midpoint of $1.50, which builds upon our solid first-half performance and the expected benefits from the three initiatives along with the impact from the Sports Authority liquidation and our increased disposition range.

With that, we'd be happy to take your questions.

David Bujnicki - *Kimco Realty Corporation - IR*

We are ready to move on to the Q&A portion of the call. Due to the large volume of participants in the queue, we request that you respect a one-question limit with the appropriate follow up. This will provide all of our callers an opportunity speak with Management. If you have additional questions, you are welcome to rejoin the queue.

Kate, you can take our first caller.

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

The first question comes from Christy McElroy of Citi. Please go ahead.

Christy McElroy - *Citigroup - Analyst*

Hi, good morning, everyone. Glenn, just on the US debt pay down portion, just want to make sure that I understand the timing of the source and uses. I realize that note pay down will be in August, but will the mortgages be prepaid then also? What is the expectation for further asset sales timing in the second half in terms of funding it? When would you expect to do another bond deal, if so. Just try to get a sense for where the line of credit stands at year end.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Okay. We ended in really good shape. I'll take it in pieces. The line of credit, we ended with about $100 million on it, so we have plenty of capacity on our $1.75 billion credit facility. As it relates to the mortgages that we will be prepaying, that will probably happen on September 1. Notices have been sent to them and then the bonds will be paid at the end of the month. We added roughly 30 days, 35 days and we will monitor the bond market closely and probably be active sooner than later I would guess.

As it relates to the asset sales, again, there is a fair amount. I think Ross mentioned that there' 20 assets that are either under contract or that we have offers on, so the second part of the year you will see another few hundred million dollars of sales that will help funds all these transactions that we're doing. As it relates to Canadian bonds, the cash, most of the cash is already sitting on the balance sheet.

Christy McElroy - *Citigroup - Analyst*

Got you. Then just a quick follow up on the TRS merger. I think the $8 million of the $29 million annual savings, presumably most of that $8 million is in the corporate tax provision. How much is the reduced administrative costs that could impact G&A within that number?

Glenn Cohen - *Kimco Realty Corporation - CFO*

It is a few hundred thousand dollars because you're dealing with less tax returns and there's lot of other compliance related issues that we will be able to mitigate.

Christy McElroy - *Citigroup - Analyst*

Okay. Thank you.

Operator

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

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Great. I guess this is for Ross. Given your description of the environment, I am wondering if you think cap rates could even go lower for community strip shopping centers in major metro markets in later half of 2016.

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

We absolutely do and I think Milton has been touting that for a while now and we absolutely have seen in the market on deals that we're chasing, particularly those core markets that I mentioned in the script and they continue to go lower, unlevered IRR expectations are in the fives. We continue to be disciplined but we feel that there is opportunities if we pick our spots, which we will continue to do, similar to this Kentlands acquisition in DC.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Has this accelerated post the Brexit decision?

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

I think we've seen it over the course of the year, but that certainly has factored into I think a renewed vigor and search for yield that you can't find anywhere else. A lot of investors have continued to focus on the US shopping center industry.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

The next question comes from Samir Khanal, Evercore ISI. Please go ahead.

Samir Khanal - *Evercore ISI - Analyst*

Good morning, guys. Just trying to get a better understanding of same-store NOI growth for the second half. Are you expecting more claw backs on the reserves you took in Sports Authority previously? Year to date you're trending at about 2.3%. I'm just trying to get a better sense as to how you get to the midpoint of guidance, the 3%. I know you have some of the some of the Anna's Linen and some of the A&P boxes that will start paying rent, but is there anything else we're missing to get to the midpoint of the high end of guidance?

Glenn Cohen - *Kimco Realty Corporation - CFO*

It's Glenn. We looked at our forecast and it was always anticipated that the backend of the third and the fourth quarters, had stronger same-site NOI growth because you have more assets, more leases that are actually coming online and starting to pay rent from lease-up that was done previously. We always forecasted that the second half of the year would be stronger.

In terms of the Sports Authority reserve, where we are is probably where it is going to end at this point, because what we have reversed is what we think we're going to collect. Now that they're going to close the rest of the stores, I think the reserve is where it is so you will see further growth coming in the third and the fourth quarters from organic things happening at the portfolio level.

Samir Khanal - *Evercore ISI - Analyst*

Okay. In terms of acquisitions, year to date you have done about $150 million. I think you've kept your guidance unchanged at the midpoint, about $500 million. I'm trying to get an idea of what you're seeing in the pipeline at this time.

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

Sure. Obviously we mentioned the Kentlands deal, which is another $95 million, which will get is up to a $250 million, right in the middle of the range. We continued to evaluate opportunities, both from third parties and continued discussions with our joint venture partners. We are fairly confident that we will be able to access the JV platform for some other opportunities in the second half of the year, so we're very comfortable with the range that we have outlined.

Samir Khanal - *Evercore ISI - Analyst*

Okay. Thanks, guys.

Operator

The next question is from Jeremy Metz of UBS. Please go ahead.

Jeremy Metz - *UBS - Analyst*

Hey, guys, good morning. Going into the year I think the view was really that this is going to be the end of the big transformative sales year. You're obviously largely there but you did raise your disposition expectations again, which is offsetting some of the positives from the debt redemptions and the TRS merger. I guess I'm wondering was the decision to sell more driven by the opportunity to pull forward some of that debt prepayment or is it a result of better pricing and interest in the market for what you are selling?

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

Yes, it's really the latter. We've seen extreme interest and strong pricing in what we've been selling so we've taken that opportunity to push more out into the market than what was initially contemplated. As long as we continue to execute and get the pricing we think it's a great opportunity to enhance the quality of the portfolio through the end of this year and then on a go-forward basis starting in the beginning of 2017 will be a much more selective and opportunistic disposition program, somewhere in the $150 million range, plus or minus.

Jeremy Metz - *UBS - Analyst*

Okay. One for Glenn. It sounds like there is a bond deal possibly in guidance here. In terms of ATM, you used it earlier this year, I think in the $28 to $29 range. I don't think you've used it since the last call. The stock price is obviously higher today. I wondering if you considered issuing more equity maybe as opposed to selling some of those assets, or more broadly do you have equity built into your plans for the rest of the year?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Again, we look at the entire capital plan for the full Company. The ATM is an option for us and it is a balance between the amount of equity issuance and debt issuance to get us to the debt metric level that we want to be at. We will continue to monitor the market and where we think it's opportunistic, we will take advantage of it.

Jeremy Metz - *UBS - Analyst*

So nothing built into guidance, then?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Nothing further, no.

Jeremy Metz - *UBS - Analyst*

Thank you.

Operator

The next question is from Haendel St. Juste of Mizuho. Please go ahead.

Haendel St. Juste - *Mizuho Securities - Analyst*

First a question on the OpEx. I noticed a big drop year over year. What is driving that? Is it one time? Is it sustainable? Some color on that, please.

Glenn Cohen - *Kimco Realty Corporation - CFO*

It's Glen. Hi, Haendel. You have two categories that are lower. One happened to be snow removal costs are lower. I can't predict for next year, so we'll have to see what happens. And then actually just we spent a lot less money on parking lot patching and repairing, where -- for this year versus last year. It's just a sign of what the portfolio looks like in the conditions of the properties today. I think you have fairly good run rate where you are now.

Haendel St. Juste - *Mizuho Securities - Analyst*

Got it. Got it. Okay, just curious, what does the internalization of the TRS mean for the Kimco-plus business going forward?

Glenn Cohen - *Kimco Realty Corporation - CFO*

When you think about what we did, it was more about bringing the properties, the shopping center assets, back into the REIT structure. These are assets that were developed by us years ago that were originally part of our merchant development business. We have leased them up, fully developed them. Most of them are long-term hold assets. They really belong in the REIT structure, so it was a matter of trying to find the most tax efficient way to bring them back in their appropriate space.

With that, though, the Albertsons transaction and the investment in Albertsons comes along with it because we own less than 10% of the investment there and it allowed us to bring it back into the REIT. There is some benefit potentially that could come from it from a tax structuring standpoint. As it relates the Plus business, we do still have a separate TRS where if there were things that were appropriate for that, we would house them there. This is more about the properties, though.

Haendel St. Juste - *Mizuho Securities - Analyst*

Got you. Got you. Since you mentioned Albertsons, any update on potential thoughts for the IPO?

Ray Edwards - *Kimco Realty Corporation - EVP of Retailer Services*

This is Ray Edwards. The company is still pursuing the IPO option and the S-1 is kept updated and I think it'll be updated again next week on that. The company is offering other opportunities for us to monetize part of our investment while waiting for the IPO market to come around.

Haendel St. Juste - *Mizuho Securities - Analyst*

Thank you.

Operator

The next question is from Paul Morgan of Canaccord. Please go ahead.

Paul Morgan - *Canaccord Genuity - Analyst*

Hi, good morning. Just a follow-up on that. You mentioned that the transactional income that you are expecting is still back end loaded. I guess I understood that when you said that last quarter, that was referring to Albertsons, at least largely. Can you help me understand that since it's not going to happen at least the way maybe you anticipated it earlier in the year? How do I think about Albertsons and then the transactional backend loaded number?

Glenn Cohen - *Kimco Realty Corporation - CFO*

The transactional income is still premised on some level of monetization of our Albertsons investment. That's what's there. Ray?

Ray Edwards - *Kimco Realty Corporation - EVP of Retailer Services*

Yes. In 2015 October, when they tried the IPO and it didn't work out, we kept the, as I said before, the S-1 updated on file to do that. But as markets are fickle, the partners have gotten together and looking at other opportunities as a path to monetize part of our investment and we're considering doing that and that might be a vehicle for us to monetize and we are optimistic it will happen this year, so we're still on track for it.

Paul Morgan - *Canaccord Genuity - Analyst*

Okay. Thanks. Real quick, you mentioned the cap rate compression for major metro assets. How widespread do you think you might see that? Is it something that's trickling into secondary markets or B assets or this institutional quality demand that's driving it and so more restrictive?

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

Certainly on the institutional assets, they continued to compress. In the secondary markets we're still seeing very strong pricing. Our dispositions in the US are still in the high sixes, low sevens particularly with assets that have a grocer that is a dominant grocer within that market. We're still seeing very strong pricing even in the secondary and tertiary markets. Where there is a little bit of softness is more in the commodity type retail where there is no true value add and a relatively flat asset with no grocer is starting to see a little bit of trickle upwards in cap rates but still well within the range of expectation and within pricing that we are comfortable selling.

Paul Morgan - *Canaccord Genuity - Analyst*

Great. Thanks.

Operator

The next question is from Alexander Goldfarb of Sandler O'Neill. Please go ahead.

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

Good morning. Glen, just a clarify, on the guidance it sounded on one hand like you were including a bond offering just because you're going to get $9.5 million of benefit this year from the TRS and the bond in the bond take outs, and yet then it sounded like you weren't including an unsecured deal in your numbers this year. Can you just clarify what's in it? Maybe it's just that the bond deal may be so late in the year that it doesn't impact this year's numbers?

Glenn Cohen - *Kimco Realty Corporation - CFO*

The guidance does contemplate refinancing what we're calling on the USI with the bond. That is part of the guidance.

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

Okay. Because you guys traditionally give you next year's guidance with the third quarter, you mentioned at the start about all the preferreds being callable next year and maybe the ones in the fives are still attractive but certainly you've got a 6% one out there. As we think about our 2017 numbers, we are obviously adjusting for the TRS and the bond take outs. Should we also be thinking about the preferreds coming out or is that a decision that you just mentioned their callable but we shouldn't read anything into that?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Again, as we get in -- first of all, as far as guidance we don't do guidance in the third quarter. We do it later. Second, I mentioned it because it is another opportunity for us to further reduce our overall cost of capital, again, but it's going to be subject to market conditions at the time and where rates are. I throw it out there because it is something that is near term. It's on our radar screen.

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

Okay. That's helpful. Thank you.

Operator

(Operator instructions)

The next question comes from Vincent Chao of Deutsche Bank. Please go ahead.

Vincent Chao - *Deutsche Bank - Analyst*

Hey, good morning, everyone. Going back to the commentary about the strong pricing environment that caused you to increase your dispo guidance for the year and then also thinking about the comment about a normalized level in 2017, if we continue to see pricing hold up and maybe even improve over the back half of this year, should we be thinking about something more than $150 million just as you look to take advantage of that pricing?

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

We really feel like we are at the end of our transformation so we will continue to be opportunistic, but we are very happy with the level of the portfolio, the quality of the assets that we have once this year is completed. We will always evaluate the quality of the properties, where the risk levels are, if markets are moving and things of that nature. We don't anticipate any larger scale disposition program beyond this year.

Vincent Chao - *Deutsche Bank - Analyst*

Okay. Maybe the situation in Puerto Rico for a second. I'm curious if you can provide some commentary on what you're seeing there.

Conor Flynn - *Kimco Realty Corporation - President and CEO*

The Puerto Rico portfolio is holding up nicely. The occupancy is still above 95%. Same site was positive but obviously relatively muted so it is one that with the recent announcement of the PROMESA I think that the optimism is taking hold on the islands. Clearly they have some issues to work through on the debt levels, but we think from the shopping center standpoint that the traffic volume is still very, very high, the sales are strong so we think overall the outlook has gotten a bit brighter recently.

Operator

The next question is from Ki Bin Kim of SunTrust. Please go ahead.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Thank you. Could you comment on the Dania project in Pentagon? It seems like some of the numbers have changed a little bit and I'm just wondering if it's a cosmetic choice in terms of to take out a Phase 2 disclosure or is there's actually a change in the scope of the project?

Conor Flynn - *Kimco Realty Corporation - President and CEO*

Sure. We actually broke out both projects in phases. Like we've talked about earlier, most of our projects have what we're calling off ramps in phases that we can actually see if we want to go or no go on the projects. Pentagon the Phase 1 as I mentioned is really the parking deck that is nearing a completion and then the first tower that is entitled and is ready to go vertical as soon as a parking deck is complete. The second phase on Pentagon is the second tower. Again, we will monitor the absorption rate and the rents and where they're coming in and then make the determination on the second tower if and when it is appropriate.

Dania, the same thing. First phase, we broke out that cost so you can see exactly goes into the first phase and that's the Costco portion as well as some junior anchors that we're moving along nicely. The second phase there is going to be more of a higher density play so we broke that out as well. As I mentioned, the H& M lease is fully executed so the pre-leasing is starting to move forward on that as well. We wanted to give you a bit more granularity on the phasing opportunities we have on some of these larger scale projects.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. Just a follow-up on a previous question on Albertsons, you mentioned that you might partially monetize it before IPO, if I heard that correctly. How do you think about that? Because I'm guessing there's probably a pretty decent liquidity discount that you would have to take if you wanted to monetize it before the shares are publicly traded. What goes on behind the thought process there?

Ray Edwards - *Kimco Realty Corporation - EVP of Retailer Services*

Well I think for us and our partners, we don't think that the discount will be that great, first of all, and we wouldn't be selling that large of a piece of the investment. What we feel it will do for us is one, put a little money in our pocket but also validate the valuation that we feel we have in Albertsons and hopefully you will add 15% to 20% to the valuation after we announced a transaction.

Operator

The next question comes from Michael Mueller of JPMorgan. Please go ahead.

Michael Mueller - *JPMorgan - Analyst*

You talked about for the Sports Authorities 6 to 12 months, I think, to address the remaining boxes. What time period do you see most of the boxes actually occupied and renting by? How far down the road?

Conor Flynn - *Kimco Realty Corporation - President and CEO*

We have pretty clear visibility into the absorption that we think is going to occur. We have LOIs working on 18 of the boxes right now that are pretty close to fully executed. We actually think we have a chance to be cautiously optimistic that a lot of then will be done before the end of the year but again, we want to -- it's probably going to take 6 to 12 months before all of them are fully occupied and the rent start to come in. We do have one lease that is fully executed with a grocery store that's 33% above prior rent and we continue to see what other opportunities exist to add grocery components going forward to the opportunities that we have.

Michael Mueller - *JPMorgan - Analyst*

So that 6 to 12 was actually occupied renting, not just addressed and leased?

Conor Flynn - *Kimco Realty Corporation - President and CEO*

Correct.

Michael Mueller - *JPMorgan - Analyst*

Okay. Great. Thank you.

Operator

Next question is from Richard Hill of Morgan Stanley. Please go ahead.

Richard Hill - *Morgan Stanley - Analyst*

Good morning. I had a quick question about the rental rate releasing spreads. First of all, congrats on getting those to highest level in three years. I had a question, though. It looks like there was some absolute increases between new leases and renewals but maybe also an additional weighting towards new leases over renewals. Am I thinking about that correctly and if so, is there anything there? Are you seeing more leasing velocity on this space? What drove that?

Conor Flynn - *Kimco Realty Corporation - President and CEO*

Clearly you're seeing that the occupancy is hitting near an all-time high. When spaces come available there's usually a bidding war to get high-quality real estate in this market. That's clearly what's driving the rental spread, both in the new leases. Typically now when you see renewals come up, it is more option notices that are coming in rather than, say, pure renewals because people are worried about giving up their high-quality real estate because they know there is a chance they may lose it if they don't exercise that option.

Richard Hill - *Morgan Stanley - Analyst*

Okay. Thank you. I will follow up with any additional questions.

Operator

The next question comes from Collin Mings of Raymond James. Please go ahead.

Collin Mings - *Raymond James - Analyst*

Good morning, guys. Just going back to Alex's question, where do you think can price preferreds today?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Preferreds today were probably in the low fives. I mean, in the low fives.

Collin Mings - *Raymond James - Analyst*

Okay, great. Thanks, guys

Operator

The next question comes from Chris Lucas of Capital One Securities. Please go ahead.

Chris Lucas - *Capital One Securities - Analyst*

Good morning, everyone. I guess as you guys have moved very far down the line on simplification, I was curious as to what your thoughts are on the remaining JVs and whether there has been any additional conversations with your partners in terms of how those may be either dissolved or whatever.

Conor Flynn - *Kimco Realty Corporation - President and CEO*

We really have three large remaining JV partners left and that's really Prudential, CPP, and the New York Common Fund. They are all great partners and they are all long-standing relationships that we've had over the years. Typically they are long-term holders. I do not see any large transaction in the near term there but there is always bites at the apple that we think we can get on the margin, whether it is a smaller portfolio of properties or a few here and there that we can -- that we are able to acquire similar to the Dania and Oakwood transaction that we announced this quarter. Again, we will take the opportunities when they present themselves but again, we are really down to three large major partners that are all great partners and long-term holders of high-quality real estate.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Also, two of those ventures -- the Common Fund venture that we have, we own almost 50% of it and with CPP, we own 55% of it so we are a major stakeholder in those.

Chris Lucas - *Capital One Securities - Analyst*

Glenn, just a quick follow up on the guidance adjustment as it related to the transactional income expense line. Can you just sort of walk -- prior guidance was $25 million to $42 million of gains. Now it is $40 million to $59 million of loss. You've given us the one number, the $89 million for some of these strategic investments. I am curious as to what the other delta might be.

Glenn Cohen - *Kimco Realty Corporation - CFO*

That's really it. It's the same as what we had before. The differences is our expectation of some monetization of Albertsons in the number. The only change to the guidance that occurred really relates around the $89 million. It's maybe $0.01 difference because we actually had some transactional income that is already done so the preferred equity investment that was sold this quarter and the one from last quarter gave us $0.01 of headline FFO.

Operator

The next question is from Jason White of Green Street Advisors. Please go ahead.

Jason White - *Green Street Advisors - Analyst*

Hey, guys, just going back to cap rates for a minute, you talked about the higher-quality properties trading at lower cap rates. What are you seeing on the middle, the higher end like some of the properties you're selling? Are those cap rates compressing as well?

Ross Cooper - *Kimco Realty Corporation - Chief Investment Officer*

Yes, they've really maintained the levels that we have seen for the last 9 to 12 months. In the US in some of the secondary markets we are in the high 6%s and low 7%s and if there is a grocery anchor, even if it's outside the core markets, we have sold a couple of assets in the high 5%s and then low 6%s. We still feel really good about where cap rates are. We have not seen them change materially. The buyer pools have been a bit shallow for the last 12 months compared to the beginning stages into the middle of the 2015, but those groups are still very serious. They are able to get financing when they need it and we haven't really seen any hiccups in the deals that we have put under contract in getting it across the finish line.

Jason White - *Green Street Advisors - Analyst*

Great. Then just one on your same-store NOI guidance. If you look at the top end of your range, is that still on the table? I implies a pretty high growth rate in the back half of the year with the Sports Authority headwind. Is there any way of achieving that high end at this point?

Glenn Cohen - *Kimco Realty Corporation - CFO*

There is always a way, depending on how quickly certain lease ups happen and cash starts flowing. Again, we've been guiding more towards the middle, somewhere in the 3% to 3.1% range, but it is a range. We don't control everything that happens but we do feel comfortable towards that middle end of that range.

Operator

The next question is from Rich Moore of RBC Capital Markets. Please go ahead.

Rich Moore - *RBC Capital Markets - Analyst*

Hello, guys, good morning. I'm curious, have you seen any change at Kmart recently, any difference in that retailer or maybe any difference in your discussions with them?

Conor Flynn - *Kimco Realty Corporation - President and CEO*

We really haven't. I think there was a news stories that came out recently about some of the employee sentiment and that I think was taken maybe out of context on certain stores. The two leases that we have actually have coming due this quarter, both of them exercised options. I think that gives you some insight into it's still very much trying to make do with what they can. We continue to monitor it. We only have 21 sites left, a little less than 1% of ABR. We have four coming due in 2017 without any options that are all redevelopments so we are still continuing to monitor the situation and look to try and redevelop that real estate.

Ray Edwards - *Kimco Realty Corporation - EVP of Retailer Services*

This is Ray. Kmart has a lot of flexibility because they haven't signed a lease in 20 years so every one of their leases is probably in the last five years on the main term with an option period. They have a lot of flexibility to renew leases where they are making money like they did with a couple of ours and where they're not making money, get out of them without having to pay lease disposition programs. They have lot of flexibility on the Kmart side to wind down stores in a short period of time.

Rich Moore - *RBC Capital Markets - Analyst*

Okay, very good. Thanks guys.

Operator

(Operator instructions)

The next question comes from R.J. Milligan of Baird. Please go ahead. RJ, is your phone on mute?

R.J. Milligan - *Robert W. Baird & Company, Inc. - Analyst*

Sorry about that, guys. Glen, a question about 2017. As we look into the next year, what do you anticipate the potential impact to same-store NOI growth will be from the empty Sports Authority boxes? I know it's going to be partially offset by higher rental rates. Just curious if you can give us a range as to what you think the impact might be.

Glenn Cohen - *Kimco Realty Corporation - CFO*

It's probably in the 50 to 60 basis point range.

R.J. Milligan - *Robert W. Baird & Company, Inc. - Analyst*

And largely depending on timing of when those leases start paying rent?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Yes.

R.J. Milligan - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thank you, guys.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Okay.

Operator

There are no additional questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to David Bujnicki for closing remarks.

David Bujnicki - *Kimco Realty Corporation - IR*

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

Operator

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