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KIM - Q1 2016 Kimco Realty Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Kimco's first-quarter 2016 earnings conference call.

(Operator Instructions)

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

David Bujnicki - *Kimco Realty Corporation - Senior VP of IR & Strategy*

Good morning, and thank you for joining Kimco's first-quarter 2016 earnings call. With me on the call this morning is Conor Flynn, President and Chief Executive Officer; and Glenn Cohen, CFO. In addition, other members of our executive team are also available to address questions at the conclusion of our prepared remarks, including Milton Cooper, our Executive Chairman; Dave Jamison, Executive Vice President of Asset Management Operations; Ross Cooper, Executive Vice President and Chief Investment Officer; and Ray Edwards, Vice President, who oversees our retail services business.

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 also 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 plan to keep our prepared remarks short and sweet. We are firing on all cylinders as we drive toward achieving our 2020 vision, and focus on long-term shareholder value.

The first quarter highlights the execution of all aspects of our strategy, as we focus less on short-term earnings, and more on creating long-term net asset value. Our disposition and acquisition activity continues to produce a higher-quality portfolio. This higher quality is reflected in our leasing production, as we continue to attract premier tenants at higher rents. Our redevelopment and development activity continues to create value and opportunity, unlocking the highest and best use of the real estate. and we do all of this with a cautious and watchful eye on our balance sheet, and our cost of capital. Now for some details.

In the first quarter, we continued to execute on our disposition strategy by closing on $323 million of dispositions in Canada, and $114 million of dispositions in the US. The blended average cap rate was 6.9% in the first quarter, and quality buyers ranging from public REITs, private REITs, local private real estate groups, high net worth individuals, international buyers, and trade buyers, all continued to cull through our disposition portfolio. We are in the ninth inning of our transformation, and with the majority of our Canadian portfolio under contract, and the progress to date on our US dispositions, we are on pace to hit our target of $400 million to $475 million of dispositions in the US and $425 million to $500 million in Canada by year end, and complete the transformation of the portfolio.

Turning to acquisitions, our first quarter concluded with limited volume, reflecting the competitiveness in our target markets. After quarter end, we did reach agreements to purchase our JV partner's interest in Oakwood Plaza and the adjacent Dania Pointe development site. These sites combine to offer over two miles of frontage along I-95 in the Fort Lauderdale-Miami corridor. Oakwood is 100% occupied, but reflects what we look for in our target markets: irreplaceable real estate, with below-market rents, significant sales volumes, and future redevelopment opportunity.

Dania is the adjacent development site that we now control, and are happy to take this opportunity to announce the ground lease with Costco to anchor the first phase, and kick off the pre-leasing. Both Oakwood and Dania are key building blocks to our 2020 vision, creating value on larger assets, in markets with high barriers to entry. Oakwood is now our number two NOI producer, and upon stabilization, Dania will be the number one NOI contributor in the entire portfolio.

The strong leasing demand for quality real estate highlights the positive supply and demand imbalance that the open air sector is currently enjoying. Keeping occupancy steady at 95.8% over prior quarter validates the portfolio's quality, and the quality of our leasing team, as we typically experience an early-year dip due to post-holiday closings. Retailer demand did not change during the stock market correction in the first quarter, and we continue to see demand across all square footage categories.

The volume of new deals this quarter included big box retailers, grocery stores, and off-price retailers, all enhancing the merchandising mix, and improving net asset value. Target, Whole Foods, Giant, and Trader Joe's are just a few examples that executed leases this quarter, that positively impact NAV. A high number of our new deals this quarter, including the Target and Whole Foods deals, are taking currently occupied space. So while we will have a short term hit in same-site NOI, and do not pick up any occupancy, we do pick up a material improvement in NAV.

In addition, these quality tenants create a halo effect at our centers, which allow Kimco to achieve outsized growth in the surrounding retail. New leases were signed at an average base rent of $21 a foot, reflecting the embedded mark to market opportunities, when compared to our current average base rent. Kimco's average base rent is now $14.67, a 4.8% increase over Q1 2015, and a 27.9% increase over Q1 2010.

While we are currently enjoying a 38-year low in supply, we are monitoring the shadow supply pipeline closely. Recent bankruptcies and announced store closings, in addition to pending mergers, will be the primary driver of increased supply in the short run, for both malls and open-air centers. This is not new to our sector. What is new is that at Kimco today, our transformed high-quality portfolio makes us more ready and better prepared for these situations. That is why we are approaching the Sports Authority liquidation with cautious optimism. Preliminary indications suggest that there will be significant demand for our boxes, if and when they revert back to us.

Redevelopments completed in the first quarter will deliver incremental NOI of $2.3 million, with an ROI of 11.5%. Redevelopment remains the best use of our capital, and Kimco's $1 billion pipeline continues to cycle more projects from the entitlement stage to the active pipeline, as additional opportunities are constantly being discovered within the existing portfolio. The amount of raw material in our portfolio, and the focus on value creation has given rise to a shadow pipeline of additional redevelopment projects that account for roughly $2 billion of future projects. Acting upon the embedded opportunity will serve our long-term shareholders by adding value to best-in-class properties.

Turning to development, we recently hit two major milestones by securing the Target deal at our Grand Parkway development in Texas, and today announcing the Costco ground lease at our Dania development project in Florida. These anchors have jump-started the pre-leasing for the first phases of both projects. Due to the lack of new supply and the strong demand for open-air retailers, we continued to aggressively pre-lease our strategic development projects. Each development site has a phasing plan in place to better monitor and ensure that our investment remains accretive to our cost of capital, and to provide off-ramps to keep maximum flexibility.

In closing, we continue to march toward our 2020 vision of being a US-focused REIT, with large pockets of concentration in high barrier to entry markets. The team is working overtime to unlock value at the property level through lease-up and mark-to-market opportunities, continuing to expand and deliver on the redevelopment pipeline, and executing on a strategic development pipeline, all while positioning the balance sheet to be in a position of strength now, and for the next cycle.

Glenn will now take you through the details of the first quarter.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Thanks, Conor, and good morning.

2016 is off to a solid start. We continue to execute on all fronts: leasing, dispositions, redevelopment and development activity, and further strengthening of our balance sheet metrics. These are the primary ingredients needed to achieve our 2020 vision.

Headline FFO per diluted share, which represents the official NAREIT definition, was $0.38, up from $0.37 last year, and $0.01 higher than FirstCall consensus. The improved performance is attributable to a 5.2% increase in US net operating income, which was substantially offset by the reduction in NOI from the Canadian dispositions. Lower G&A expense and lower financing costs attributable to the redemption of the 6.9% preferred stock last year also contributed to the growth. Included in the headline result is a profit participation from the sale of a Canadian preferred equity investment of $5.5 million.

FFO as adjusted, or recurring FFO, which excludes non-operating impairments and transactional income and expense, was $0.37 per diluted share for the first quarter, up from $0.36 last year, a 2.8% increase. We accomplished this growth level despite the $0.03 per share diluted impact from our portfolio transformation. The portfolio transformation includes the substantial disposition of assets in Latin America and Canada totaling $900 million, and $600 million of US dispositions in just the last 12 months. The dilutive impact was more than offset with the reduced financing costs, and $1.4 billion of acquisitions of high-quality assets in our key markets. Many of the acquisitions were sourced from our joint venture programs.

Our portfolio operating team delivered solid first-quarter results, maintaining our anchor tenant occupancy at 98.2%, and increasing small shop space by 40 basis points from a year ago to 88.6%. We remain on target for small shop occupancy to reach 90% by year end. We continued to deliver strong leasing spreads, up 19.1% for new leases, up 6.3% for renewals and options, and 7.5% combined. US same-site NOI growth is 1.5%, and includes a credit loss reserve of $3.2 million or 140 basis points related to the bankruptcy filing by Sports Authority. This reserve amount includes 100% of all pre-petition amounts, and $811,000 of rent from March, which remains unpaid.

Even with the short-term impact from Sports Authority, we remain on track and reaffirm our full-year US same-site NOI guidance range of an increase of 2.5% to 3.5%. Additionally, in an effort to give the analysts and investor community further information for comparability purposes, we have included in our supplemental package the same-site disclosures of straight line rent adjustments, lease termination fees, and amortization of above- and below-market rents.

As part of our 2020 vision, we are laser-focused on further improving our debt metrics with a target of 5 to 5.5 times of consolidated net debt to recurring EBITDA and a fixed charge coverage of 3 times plus. In the last 12 months, we have reduced our net debt by $560 million, from $5.5 billion to $4.94 billion at March 31. At the end of the first quarter, net debt to recurring EBITDA was 5.9 times, down from 6.6 times a year ago, and fixed charge coverage came in at 3.2 times.

We repaid over $400 million of maturing debt during the first quarter, and we paid an additional $117 million of mortgage debt in April, leaving us with just about $250 million in remaining consolidated maturities for the balance of the year. A portion of the debt repayment was accomplished with $138.5 million of proceeds raised from the issuance of 4.96 million shares of common equity through our ATM program, at a weighted average offering price of $28.20 per share during March and April. As another data point, at the end of the first quarter, our total debt to total market capitalization was down to 28%, the lowest level in the past eight years.

Based on the solid first-quarter results, we are reaffirming our headline FFO per share guidance range of $1.54 to $1.62. Please keep in mind that the bulk of the transactional income for 2016 is anticipated to occur late in the fourth quarter. We are also reaffirming our FFO as adjusted per share guidance range of $1.48 to $1.52, the midpoint of $1.50 per share, in each of our operating guidance assumptions.

And with that, we'd be happy to answer your questions.

David Bujnicki - *Kimco Realty Corporation - Senior VP of IR & Strategy*

We are ready to move onto the Q&A portion of the call.

(Caller Instructions)

Keith, you may take our first caller.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Michael Bilerman, Citi.

Michael Bilerman - *Citigroup - Analyst*

Conor, I was wondering if you could spend some time with Oakwood and Dania. Just from perspective of who approached who, to whether it was you or CPP? But also how the development was effectively valued, versus going forward with it as a partnership.

And then I get your point in terms of wanting to have high pockets of concentration, but it would seem between Oakwood and Dania, which would rank number one and number two, that would be a very large concentration in a very concentrated location. So maybe you could just walk through some of the comfort that you got through all of that?

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

Sure. Happy to. Oakwood and Dania, we have been very proactive with our partners, to, as you know, one of our strategies is to really own more of our assets 100%, and give us total control of our destiny, and this especially was true with Oakwood and Dania. Oakwood is where we have an office, so we have physical presence there. And we realized that with Oakwood and Dania, we'd have a unique opportunity to really enhance the value of both assets with what we are trying to do, both at Oakwood and Dania.

So we have been proactive with all of our partners, and this one was opportunistic for us to strike, and really take CPP out of the transaction, early on in the stage. So we were able to buy CPP out of the development site at their basis, which we thought was extremely opportunistic. And now that we have Costco fully executed, we think it's just the beginning of a strong pre-leasing effort for the first phase.

And the second phase, now that we have complete control, gives us the ability to really take a step back and look at what's the highest and best use for the property, if we want to sell off parcels, if we want to self-develop our parcels, or if we want to do higher density, we had that luxury now, which before we probably had the inability to do so, because of the partnership. We feel like it gives us more flexibility, and it continues to allow us to focus on larger assets with significant both development and redevelopment opportunity. So that was a little bit of the history there.

In terms of the concentration, you are right, it's going to be, in terms of our size, the number one and number two producing properties in the portfolio, but we also have tremendous pockets of concentration in California and New York, and with future redevelopments at Westlake, as well as some of our other larger assets, I think that there will be other large assets that may challenge the number one and number two distinction that we have given Dania and Oakwood. We always want to look and see and make sure that we're diversified accordingly. If it becomes too concentrated, we will have hopefully the luxury of looking at alternative ideas there, of what we should do.

Michael Bilerman - *Citigroup - Analyst*

And what percentage would Dania and Oakwood combine, in terms of when you're talking number one and number two, what would be the concentration?

Glenn Cohen - *Kimco Realty Corporation - CFO*

The total, Michael it's Glenn, the total would probably be no more than 3%.

Michael Bilerman - *Citigroup - Analyst*

Combined.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Combined.

Michael Bilerman - *Citigroup - Analyst*

All right. Thank you.

Operator

Craig Schmidt, Bank of America.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Were all or nearly all of the Sports Authorities in the same store pool, without redevelopment bucket?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Yes.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Okay. And if you were to get, let's just assume 25 of the Sports Authorities back, how long do you think it would take to maybe fill half of those stores?

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

Craig, it's Conor. I think that when you look at the -- if you talk about half the Sports Authority boxes, it will obviously be a case-by-case situation. But the ones that we have really been heavily marketing, we feel like we have a tremendous amount of interest on those boxes. We have LOI's already in place on a number of them, so if you want to just take the 25 and cut it in half, it would probably take us probably another quarter or two to probably finalize the leases and get half of them fully executed. That being said, we are well aware of the interest levels of other sporting goods operators in real estate and their leasehold positions. So we anticipate anywhere between, during the auction process, maybe 10 to 15 leases that may be sold to their competitors.

Craig Schmidt - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Operator

Jason White, Green Street Advisors.

Jason White - *Green Street Advisors - Analyst*

Just a quick question on your non-cash rents. It looks like those jumped up quite a bit in 1Q. Incrementally, they were up in 4Q as well, but year-over-year, they were up quite a bit. Is there anything special in there?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Nothing special. What happens is when a tenant leaves that had a below-market rent, and they leave early, you have to take the full amount into occupancy, and we had that in one particular case. It was several million dollars. That's really what it is, nothing more than that.

Jason White - *Green Street Advisors - Analyst*

Got you, and could you walk through the A&P update, in terms of the boxes that you got back and where you are at in releasing those and actually turning the keys back over to the tenants to pay rent?

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

Yes, absolutely. We have four A&P boxes left to lease up. One of them in Staten Island is a large-scale redevelopment in Hylan Plaza. We're going through the process right now to add over 100,000 square feet of additional density.

We have an executed lease there with a full line grocer, but we can't yet disclose who it is, because we're still going through the entitlement process. That's going to be a 2017 redevelopment that's very large in scale. We have been pre-leasing that, but we have yet to disclose it as we go through the entitlements.

Holmdel in New Jersey is another one where we have LOI's going with two potential specialty grocers that are bidding on a portion of the space, as well as the best-in-class off-price retailers to cotenant with them, to split that box. A third one in Staten Island, which is really the last piece, it's a Richmond redevelopment, where we did the large Target redevelopment, and this was the last phase. We have deals approved at RAC committees with retailers to split the box. One for a best-in-class specialty grocery to take half of it, and another best-in-class off-price user to take the other half.

The final A&P store is actually under contract to be sold to an end-user. They came and approached us to purchase the asset, and because the end-user is able to pay a significant price, so we're under contract there. Probably should be closing next quarter.

Jason White - *Green Street Advisors - Analyst*

Great. Thank you.

Operator

Paul Morgan, Canaccord.

Paul Morgan - *Canaccord Genuity - Analyst*

Just a little bit more on Sports Authority, I guess. Do you have an update on the mark-to-market across the 25 stores on average? And I understand what you said about, you make half of those that are directly sold to competitors, but I'm interested in that number anyway. For the ones you do get back, do you envision demising spaces, or are the people you have lined up preliminary taking it as-is, and are there any retail segments that are most interested in that size box for you right now?

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

Yes, the mark-to-market overall is around 5% to 10%. We do have some upside depending on which stores we get back, and obviously it's a tenant site by site. On the releasing side of it, it's going to be again, case-by-case scenario. We do have LOI's for our users to take the whole box, and also users to split. Many of the off-price concepts have multiple flags.

So they could take the whole box and do multiple uses in that box, as well. We also have the opportunity to add grocery to 15 of our 25 locations. We have obviously pinned that down this a priority for us, to see that we could create some value there as well. and we are working with some of the specialty grocers, as well as traditional grocers, to take those boxes.

The average base rent for all 25 is under $15 a foot. These are all locations that we think are very much in demand, and there's very little supply out there. Whether it's going to be a competitor that just buys a lease and has to live with the existing use clause, or it's an off-price user, or a grocery store, there's also some interest from some of the home improvement sector, as well, from some of their smaller boxes. So we have cautious optimistic that we are going to be in good shape here for the long haul.

Paul Morgan - *Canaccord Genuity - Analyst*

And you mentioned, you reiterated your same-store numbers despite the Q1 impact there. Was this type of scenario incorporated maybe in the low end of the range already, or are there other things that have been, in the first four months, running ahead of plan, that led you to that decision?

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

We did have a portion of this in our budget for the first quarter. We knew our first quarter was going to be challenged in terms of same-site NOI because we are dealing with A&P, the Anna's as well as the reserve taken for Sports Authority. The lease-up continues to be robust. The portfolio, when we look at our pipeline going out, not only in the future, but also looking back, the second half of the year is definitely heavily weighted towards our same-site NOI pop. So that's really what gives us the optimism to keep the guidance unchanged.

Paul Morgan - *Canaccord Genuity - Analyst*

Thanks.

Operator

Vincent Chao, Deutsche Bank.

Vincent Chao - *Deutsche Bank - Analyst*

Just one more on Sports Authority. Are all 25 undergoing inventory liquidation sales today? Or have completed that?

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

No. Only 6 of the 25 are going through that process right now. So again, it's a fluid situation. It we obviously are marketing all the boxes, but those are the only six that are going through that going out of business sale, currently.

Vincent Chao - *Deutsche Bank - Analyst*

Got it. Thank you. And maybe just beyond Sports Authority, in your opening comments, you talked about shadow supply. I'm curious, it seems like bankruptcy season, Sports Authority notwithstanding, hasn't been all that bad. Just curious if you are seeing something different in terms of store closure expectations and future bankruptcy expectations over the balance of the year?

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

We would agree. We think it's a very healthy environment right now. If you look at the overall supply, it's very, very low. And the bankruptcy filings that you have seen, and the store closings, are relatively modest, especially when you compare year over year. And when you look at our sector, we are starting to look at shadow supply a little bit differently. We're starting to look at some of the mall anchor boxes that are possibly coming back, as part of our competitive set going forward.

We are being cognizant to be aware of it, but overall, it's a very healthy environment. The new leases that are getting done today are with really the best-in-class operators. The off-price retailers continue to add store count. There's brand-new competition coming into that sector.

The specialty grocers continue to want to add unit counts. We think that we continue to be in the sweet spot of retail, and it's a good time to get boxes back. There is no question about it.

Vincent Chao - *Deutsche Bank - Analyst*

Okay. Thanks.

Operator

Jeremy Metz, UBS.

Ross Nussbaum - *UBS - Analyst*

It's Ross Nussbaum here with Jeremy. I had two questions. The first is around the same-store NOI in the US. Excluding the redevelopments, you reported 0.2%.

Even if I add back the Sports Authority adjustment, it gets up to 1.6%. I guess the question is, what was going on in the quarter that made that US ex redev number so low. I would have thought just contractual rent growth and the releasing spreads would have gotten that number to at least 2.5%?

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

It's really dealing with the A&P and the Anna's, that we're still, that have not yet hit the flow. If you look at the executed leases that we have for Anna's and the pending deals we have working on the A&Ps, they won't start to flow until the second half of the year. That's where really we start to see the uptick in the same-site NOI. That's really what we're still dealing with, but we have plenty of opportunity there, and plenty of demand. So we think we will be able to pick it back up, and that's why we reinforced our guidance on same-site NOI.

Ross Nussbaum - *UBS - Analyst*

Got it. And then related question. I was looking at your TI spend, and if I look at that, I divide your TI spend per year of lease, compare it to the new rents that you are getting, near the $20 rent, it looks like your TIs are running at 13% of the new annual rent. I'm just curious how do you think about that number? I haven't looked back to where it was 5 or 10 years ago, it feels a little higher than where it would have been historically.

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

It's actually lower if you look at sequentially. We always tend to take the tack of trying to invest less in the retailer, and more in the real estate. If you look at a lot of our deals, they are ground leases, which will negatively impact our average base rent, but we think for the long-term, it's the best economic deal. So we try and make the retailer invest inside the space, and we do the improvements to the shopping center. That's a tack that we have taken for a long period of time, and we continue to look at that, going forward.

Operator

Haendel St. Juste, Mizuho.

Haendel St. Juste - *Mizuho Securities - Analyst*

A question on the asset sales. Given your year-to-date activity there, just curious if you're seeing any impact of widening CMBS spread on pricing or demand for the assets that you're selling? Are you getting any pushback on pricing getting retraded, and is there more interest or better pricing on a one-off or portfolio, mini portfolio basis?

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

This is Ross, I'm happy to jump in. I think that when you look at the transactional environment in general, we are definitely seeing continued strength in competition, and aggressive pricing for the core product. Anything that has a value add or achievable redevelopment or growth story, there is still an immense amount of capital chasing those deals.

When you look at our transactions on the disposition side, I'd say that the biggest challenge that we are finding is generating a deep buyer pool on some of the secondary market assets. The ones that are really stable income streams, with no growth, and no grocer, I would say that we are seeing a little bit of a more shallow buyer pool. But I think that's where the private REITs were really controlling and being aggressive in that market.

To a certain extent, I think we are missing those buyers, but that being said, we are still getting enough of an option going, where we have been able to achieve our cap rates and our objectives. I think when you compare the cap rates this quarter, as Conor mentioned, blended, we're still in the very high sixes, maybe low sevens in some cases on the dispositions, but we still feel very good our ability to get that sold.

We are not seeing any real material retrading. Obviously one-off opportunities you will see them here or there, but I don't think there's any major general trends. We are optimistic that we will continue to hit our targets for the rest of the year.

Haendel St. Juste - *Mizuho Securities - Analyst*

Seeing any portfolio demand and then any comment on change in cap rates in some of those secondary tertiary markets locations?

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

We still believe that selling them one-off is the best way to achieve our pricing. We have not seen any real premium for portfolios that have been out in the marketplace. I think when you look at the buyer pool, everybody is looking for a very specific type of asset or return threshold, whether it's the location, geographics, or the tenant profile. Buyers are looking for something very specific.

We have actually seen a bit of a discount for the portfolios that have been in the market. It obviously takes a little bit longer, and there's a lot of blocking and tackling on the one offs, but that's how we felt, that tackling has been best for us. So we will continue to work with that strategy.

Haendel St. Juste - *Mizuho Securities - Analyst*

Thank you.

Operator

Alexander Goldfarb, Sandler O'Neill.

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

If you could just talk a little bit more about equity issuance, obviously it's been several years since you last issued. And if we should expect more this year, especially given Milton's focus on getting the Company to be an A minus, it would seem like, given where you are relative to NAV, that we are likely to see more equity issuance out of you to improve the credit standing.

Glenn Cohen - *Kimco Realty Corporation - CFO*

Alex, it's Glenn. The equity that we raised in the first quarter, and the beginning part of the second quarter was really in line with what we had budgeted in terms of our overall capital plan. Now, we continue to monitor the market. We continue to watch what's happening with our disposition pipeline, watching the acquisition side of it.

And again we are very much, monitoring very closely what happens with Albertson's, because Albertson's could be a very major component of capital that comes to us, without causing any dilution at all. As a matter of fact, it becomes a very accretive transaction to us. We are very focused, as I mentioned, on continuing to improve balance sheet metrics and bringing leverage down over time, but we're going to do it methodically and opportunistically.

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

So then, Glenn as a follow up, on the transactional income, where you said, at the front of the call, that it's late 2016. Is that a placeholder, or do you have certainty as far as the timing of Albertson's, that it will be late 2016, or that's the best? Trying to understand best guess versus you have confidence that it's going to be late 2016?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Again, Ray, do you want to talk a little bit about, just what you are aware, in terms of Albertson's at this time?

Ray Edwards - *Kimco Realty Corporation - VP of Retail Services*

Yes. Albertson's, as you know, the S-1 that was filed last summer was updated in January, and will be updated next month, when our financials for our fiscal year end, which was the end of February gone. The investors and the Company and the management feel that the best direction for the Company and its future growth is to be public company. You have to time it correctly, but markets are in the right place.

It's consideration, nothing is definite now, but still focused on moving forward. The company is doing very well, beating their plans on their business. Very excited about the future. Obviously, it's something, whether we want it or not, as we saw in October, it's not necessarily going to be the placeholder for what is happening or not, but they are moving in the right direction and that's what we're basing our views on.

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

So just to finish then, Glenn, you may do more equity, if you don't do Albertson's, but if you do Albertson's, then no need for equity? That's the takeaway?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Again, as I said, Alex, we are monitoring the overall capital plan, and we will do it methodically and opportunistically. Again, just to clarify on the last point of the timing, we are right in the middle of April. There is 180 day lockout period on day one of an IPO. You are already in the fourth quarter, and we know it's not happening for a little while longer. That's why my comment, that it wouldn't be any earlier than late in the fourth quarter.

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

Okay. Thank you.

Operator

Ki Bin Kim, SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

One more question on Sports Authority, if you don't mind. Your Company's redevelopment projects has Sports Authorities and another one has HH Gregg. Just curious, how did those projects or that tenant end up in your projects? Was it just the high rent they're willing to pay or was it assumption that maybe they were healthier than they seemed to be at that time?

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

The leases were signed over a year ago. So redevelopments usually take a long time to take entitlements and get going. These were done at a time where we did a thorough review of their business plan with their CEO and their CFO, and held a conference call to see what their plan was. Unfortunately, they missed their plan. They were part of a redevelopment plan that included, we were doing a brand-new Whole Foods at one, we're doing Ross, TJX and others, on those other two.

We feel like there's plenty of demand for that box going forward in those redevelopments, and we have not given them any tenant improvement allowance on any of those sites. We have the flexibility to go back and release those boxes, if and when they are rejected and they revert back to us. So at the time they were in Florida, which is their primary market where they were the dominant player at that time, and we felt they were the appropriate co-tenant, but luckily, because of the strength of the other co-tenant of our redevelopments, we think that we will be able to do potentially even better.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay, and then let's say you do get to reassign half of those boxes. From a practical standpoint, even if they're full assignment for those half those boxes, how much downtime is there as maybe a Dick's comes in and reconfigures the space?

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

It really depends, if they buy the lease. If they buy the lease, then there's zero downtime. And we get all the rent back that we reserved for.

On the ones that will be rejected, those are the ones that will take some time in terms of lease-up and then building out of the space. It all depends on what you do with the box. If it's a single tenant user, you probably can get your rent commencement date sooner than if you were to split the box, and do a potential multi-tenant type lineup. It will really depend on what's the highest and best use for that real estate. Some of them might be grocery components, some of them might be redevelopment, some of them might be single tenant users. We will just have to come down to what's the best use that we can find.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

And how does it look right now? Or the ones you said might be reassigned or bought, would they buy the lease, or is there more incentive for a retailer like Dick's to wait it out?

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

Right now it looks like there's going to be plenty of bidders to buy a number of leases from them. They might do a couple.

Ray Edwards - *Kimco Realty Corporation - VP of Retail Services*

Conor, the thing is that are two big sporting goods stores both circling the Company. The way to get the stores might be buying them through the bankruptcy, versus if it goes back to landlord then we can decide which one we want in there, for example. Since there's some lively bidding between two major sporting goods stores, they have to keep the hat in the game, and not wait to see who comes back and cut a deal with us.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Got it. Thanks for the information.

Operator

Vineet Khanna, Capital One.

Vineet Khanna - *Capital One Securities - Analyst*

Is there a role for the plus business in the current retail landscape, specifically as it pertains to bankruptcy resolution?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Ray?

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

We always thought the plus business was part of a differentiation of our REIT versus others, and it gives us opportunities through different cycles. We've made a lot of money through the plus business over the years, and it continues to be opportunistic. With retail being so challenging these days, we do think there may be future opportunities, but clearly we are focused on the Albertson's that we currently have, and want to create value there before we probably do anything more.

Vineet Khanna - *Capital One Securities - Analyst*

Sure, and then just following up on that, on the prior comments about the bidders for the Sports Authorities. Would Kimco consider playing a role in the liquidation of Sports Authority via the plus business?

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

I think at this point in time probably not. Ray, you could talk a little bit more.

Ray Edwards - *Kimco Realty Corporation - VP of Retail Services*

Yes, I mean, the plus business for bankruptcy, is where a lot of times retailers own a lot of real estate and Sports Authority they owned one property. Actually in Pennsylvania. I am looking at that one. This is a purely a lease portfolio.

You have the users that have the highest bidders for that. For us, we'll let this play out. We don't want to chase every deal just to say we are still on the plus business. We have to make sure it's very profitable.

Vineet Khanna - *Capital One Securities - Analyst*

Okay. Thanks.

Operator

(Operator Instructions)

Michael Mueller, JPMorgan.

Michael Mueller - *JPMorgan - Analyst*

Just want to confirm that partner buyouts, they are included in acquisition guidance, and if so, looking to the balance of the year, do you expect more buyouts, or to be more skewed toward third-party acquisitions?

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

They are included in our guidance, the JV partner buyouts. It will probably be a mix. We'd like to say we have other big maybe potential JV portfolio buyout, but it will probably more likely where it's just one-off situations, where similar to an Oakwood and Dania, where we go case-by-case and try to buy individual assets that we can create a lot of value on.

Michael Mueller - *JPMorgan - Analyst*

That was it. Thank you.

Operator

Rich Moore, RBC.

Rich Moore - *RBC Capital Markets - Analyst*

Now that you've essentially got everything under contract in Canada, or else you're out of it already, have you had any further thoughts on the bonds, the two bonds that you have up there, and whether it's time to do something to get rid of those?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Rich, it's Glenn. We continue to evaluate the bonds themselves. Although we do have a lot of things under contract, we really would want the capital enhanced, before we start to make decisions about calling those bonds. We have to play it out for another quarter or so, but it's definitely on the table. It's something we are evaluating.

Rich Moore - *RBC Capital Markets - Analyst*

Okay. Is it safe Glenn, to say that if you do get out of Canada entirely, there's no sense to have those bonds stay on? Is that right?

Glenn Cohen - *Kimco Realty Corporation - CFO*

I would agree with that. Yes. I think everyone would agree with that.

Rich Moore - *RBC Capital Markets - Analyst*

Thank you.

Operator

Michael Bilerman, Citi.

Michael Bilerman - *Citigroup - Analyst*

Just two quick ones. Glenn, just on the equity, the guidance, if you just take your gross FFO, divided by your per-share FFO it's about 419 million average shares. I think you are effectively with the late 1Q and 2Q issuance, call it about 418 million. So maybe to get to the average, you may have $50 million left in your guidance of issuance. Is that right and so we should think about anything above that level as having some potential impact, accretive or dilutive, of how you use the proceeds?

Glenn Cohen - *Kimco Realty Corporation - CFO*

Yes. First of all, you have to remember, we have option exercises still from when we were still doing that. So some of that money continues to come in. You have issuances that come from our DRIP, as well. There's a very -- to your point, there's a modest amount that would remain. It's tiny at this point.

Michael Bilerman - *Citigroup - Analyst*

And the goal in terms of tapping the ATM in the quarter was, even though you have all this disposition activity, was to keep some leverage neutrality, as you did Oakwood and Dania? What drove $150 million? Was it leverage driven? Was it stock price driven in terms of the fact that you were above 28? How should we think about the rationale for tapping the ATM?

Glenn Cohen - *Kimco Realty Corporation - CFO*

We have a longer-term or medium-term goal of continuing to reduce leverage, and improve those balance sheet metrics. As you know, cash can be fungible, but as you look at the amount of mortgage debt that we will retain this year, at close to 6%, to take the leverage down with some equity, can make some sense for us. I would say we earmarked it towards debt reduction, leverage reduction, less than about the acquisitions, because much of the acquisition activity is being fueled by proceeds coming from disposition activity.

Michael Bilerman - *Citigroup - Analyst*

Just last one, Conor, and I may have missed this, but the releasing spreads softened a little bit in the first quarter from recent trends. Was there anything specific, that impacted that average? And then, I don't know how that translates into what you're expecting for the rest of the year?

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

The first quarter definitely has more renewals and options in terms of the total pie, when you look at the combined leasing spreads. So it does weigh on the combined leasing spread. But overall, we still feel very confident that we can deliver a high single-digit, low double-digit combined leasing spread going forward. We still think there's lots of opportunities to unlock value in mark-to-market opportunities there.

Michael Bilerman - *Citigroup - Analyst*

Thank you.

Operator

As there are no more questions at the present time, I would like to return the call to management for any closing comments.

David Bujnicki - *Kimco Realty Corporation - Senior VP of IR & Strategy*

Thank you for participating on our call today. As a reminder, additional information for the Company can be found in our supplemental that is posted to our website. Have a nice day.

Operator

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