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KIM - Q3 2017 Kimco Realty Corp Earnings Call

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PRESENTATION

Operator

Good day, and welcome to Kimco's Third Quarter 2017 Earnings Conference Call and Webcast. (Operator Instructions) Please note, this event is being recorded.

I would like to turn the conference over to David Bujnicki, Senior Vice President, Investor Relations and Strategy. Please go ahead, sir.

David Bujnicki - *Kimco Realty Corporation - SVP of IR and Strategy*

Good morning, and thank you for joining Kimco's Third Quarter 2017 Earnings Call. Joining me on the call are Conor Flynn, our Chief Executive Officer; Ross Cooper, President and Chief Investment Officer; Glenn Cohen, CFO; and Dave Jamieson, Chief Operating Officer; as well as other members of our executive team, including Milton Cooper and Ray Edwards.

As a reminder, statements made during the course of this call may be deemed forward-looking, and it is important to note that the company's actual results could differ materially from those projected in such forward-looking statements due to a variety of risks and uncertainties and other factors. Please refer to the company's SEC filings that address such factors.

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

Before transitioning the call to Conor, I want to make you aware of an important upcoming change regarding the timing of our future earnings reporting. Beginning with our fourth quarter earnings, which will take place in February of next year, we plan to announce our results in the morning, a few hours ahead of the conference call. We believe that having the benefit of management's comments, taken together with the reported results, will provide a more meaningful and comprehensive understanding of the company's performance and enables us to mitigate any potential Reg FD risk.

With that, I will turn the call over to Conor.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Thanks, Dave, and good morning, everyone. Today, I'll provide an overview of our strong third quarter performance, update you on our progress for achieving our 2020 vision strategy and give additional color on our portfolio, including an update on our assets in Puerto Rico. Ross will review our quarterly transaction activity and the general market environment. Finally, Glenn will provide details on key metrics and updates to our 2017 guidance. In terms of key highlights, we signed 343 new leases, renewals and options this quarter, totaling 1.8 million square feet. Occupancy increased 30 basis points sequentially and the blended spread on new leases and renewals was a positive 16%.

These results validate our ongoing thesis that open-air centers that focus on grocers, off-price, fitness, everyday goods and services continue to be solid investments and remain the backbone of our strategy to create the optimal portfolio and drive shareholder value.

That the retail landscaping is changing should not be a surprise to anyone. The history of retail from small vendors to specialty stores, to department stores, to big boxes is a history of winners and losers in the fight to win the consumers' dollar.

What is surprising today, however, is the speed in which these changes are occurring. Today is about Millennials and their taste for experiential retail, services and convenience. They research with their smartphone, which has become the retailer's front door. Today is also about the omnichannel environment, which requires retailers and landlords to work together to combine e-commerce and brick-and-mortar to attract shoppers and to keep up with their changing tastes. And that is why in this ever evolving retail landscape, our core principles of quality, growth and a strong balance sheet are more important now than ever.

Quality locations are where the retailers will always want to be, and the quality of our portfolio continues to improve. Since 2010, we've sold over $6 billion of real estate, recycling the proceeds into higher-quality assets and reduce the size of our portfolio from over 900 to 508 assets.

The result is a higher quality portfolio concentrated in the best markets in the United States. By focusing on high-barrier to entry markets and executing on our unique cluster strategy, we have become more efficient and are able to drive greater value creation. Quality drives growth, which is our second-core principle. Creating multiple drivers of NOI growth from leasing, redevelopment and development has been at the heart of our operating strategy. The leasing result of this quarter once again demonstrate that when all is said and done, the key to our business is leasing. Our pro-rata occupancy now stands at 95.8%, making it one of the highest levels in our sector. And we continue to see opportunities to grow this metric.

Leasing is the most direct and important creator of value. Whether it comes from filling vacancies, renewing existing tenants, pre-leasing our redevelopment and development projects or realizing our mark-to-market opportunities.

One example of this is our ability to transform and reposition specific assets. Specifically, we signed new leases at strong lease spreads that included the recapture of 3 former Kmart boxes just this quarter alone. Redevelopment and development continue to be a part of our long-term growth strategy. And this quarter, we achieved several critical milestones that will pave the way for our future success.

On the redevelopment side, we've secured all approvals and cleared all contingencies for our Signature Series, Staten Island project, renamed The Boulevard. A 460,000-square-foot center fostering a town square environment, which we believe is emblematic of the future of retail real estate.

Construction started recently at The Boulevard, which is already 71% pre-leased, anchored by a Shoprite grocer, Marshalls, ULTA and many other great national and regional and local retailers.

The tenant lineup not only demonstrates the vibrancy of the market, but also significantly reduces the risk associated with major construction. And keep in mind, redevelopment like the The Boulevard necessitates the demolition of existing stores and cause short-term impact to same-site NOI. Ultimately, however, the revitalization of irreplaceable assets like The Boulevard will create significant net asset value. Separately, Phase I of Grand Parkway in Houston is just about complete and the final anchor box in Phase II is now leased. The Boulevard and Grand Parkway represents just 2 examples of our robust pipeline of development and redevelopment opportunities.

Our third core principle is to maintain a well-positioned balance sheet that enables us to support our growth initiatives, and let our shareholders sleep comfortably at night. Glenn and his team continuously seek opportunities to improve our already solid capital structure and healthy liquidity position. Specifically, they have successfully extended our debt maturity profile, judiciously tapped the preferred equity market and refinanced existing mortgage debt in favorable terms. Furthermore, as our NOI growth accelerates, we expect our debt metrics will continue to improve.

Finally, let me take a moment to update you on our Puerto Rico portfolio. First and foremost, our employees on the island are safe and have performed herculean efforts in helping other team members, some of whom have lost homes and then spearheading our cleanup and restoration efforts.

In particular, I would like to thank Victor Aguilar and Guillermo Zegri for leading our team in the face of enormous logistical, physical and emotional challenges. Conditions on the island are now improving. Fuel shortages are easing and grid power is gradually being restored.

Fortunately, none of over 7 assets sustained major structural damage and comprehensive restoration plans are being implemented at each of our sites. Tenants continue to reopen and many of our anchor tenants are now open for business.

In closing, our leasing volume continues at a record pace. Our occupancy is pushing towards all-time high and continues to validate the quality of our portfolio. Our pipeline of development and redevelopment projects are now starting to deliver and our balance sheet remains the source of strength. Our team is determined to make our 2020 vision a reality. I firmly believe that for Kimco, the best is yet to come.

And now, I will turn the call over to Ross.

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Thank you, Conor. While the acquisition environment remains uber competitive for infill shopping centers with upside and value-creation potential. We continue to pick our spots, recycling the disposition proceeds from noncore properties into irreplaceable Signature Series assets with long-term redevelopment opportunities.

The third quarter was quite active as we enhanced the quality of our portfolio and strengthened the concentration of assets in our primary markets. During last quarter's call, we announced the Jantzen Beach acquisition in Portland, Oregon, a dominant 67-acre center with substantially below-market leases and both near- and long-term prospects for value creation and redevelopment. We continue to mine our assets for growth and expansion opportunities and added adjacent parcels to several assets in the third quarter. We accretively acquired an unowned parcel at Jantzen Beach in addition to boxes at our Webster Square assets in Nashua, New Hampshire and Gateway Station in Burleson, Texas. Subsequent to the end of Q3, we purchased Whittwood Town Center, a dominant West Coast asset. Whittwood is a 787,000-square-foot grocery-anchored property located on 54 acres in Whittier, California, a densely populated suburb of Los Angeles. It is anchored by Target, Vons supermarkets, Sears, JCPenney, Kohl's, 24 Hour Fitness and others.

Our attraction to this site includes irreplaceable real estate and impressive demographics. The substantial upside is what we envision for the future. Collectively, the below-market leases of Kohl's, JCPenney's and Sears have an aggregate mark-to-market spread of 560%. The anchor leases, including Target, average $3.01 per square foot versus a market rent in excess of $10 per square foot. The $123 million purchase price was funded with 1031 exchange proceeds and a $43 million loan assumption of in place debt. With the addition of Whittwood, Kimco now owns 25 assets in Los Angeles, adding to the significant scale we have in this market and further leveraging our Southern California regional offices.

In terms of disposition activity, we remain on track, selling 5 noncore assets for $62 million at a mid-7% cap rate. This brings our sales total for the first 9 months of 2017 to 21 shopping centers and 3 land parcels for a gross price of $331 million. We have another 19 assets either under contract or with price agreement for a total of approximately $185 million, much of which we expect to close by year-end.

The market remained strong for our product, especially those properties with value-add components. This quarter we sold an asset in Joplin, Missouri with a strong junior anchor line up and 1 box vacancy to a local buyer. We had 7 offers for that center. We also now have price agreement for a power center in the secondary market of North Carolina. We had 14 offers for that asset. Bidders in the secondary markets have generally consisted of local buyers with private equity backing, private REITs and opportunity funds. Debt is still readily available for reputable sponsors at extremely attractive rates. We remain confident in our ability to execute on our strategy of pruning the noncore assets from the portfolio and given the current cost of capital, our expectation is that we will sell substantially more than we will acquire in 2018.

Glenn will now walk you through the financial results.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Thanks, Ross, and good morning. We are happy to report positive third quarter results from our open-air shopping center portfolio, as we continue to execute on all operating fronts. Leasing was strong leading to increased occupancy, development and redevelopment projects continue to progress and our balance sheet and liquidity position improved as a result of our capital markets activity.

For the third quarter, we reported NAREIT-defined FFO for diluted share of $0.39, which includes $0.03 per share of foreign currency gain on the substantial liquidation of our Canadian investments. Also included is a $0.02 per share charge attributable to the preferred stock redemption, prepayment of bonds and some land impairments. NAREIT-defined FFO per share for the third quarter last year was $0.18 per diluted share and included transactional expenses totaling $0.20 per share from the early repayment of debt and the deferred tax valuation allowance resulting from the merger of our taxable REIT subsidiary into the REIT. FFO as adjusted, which excludes transactional income, expense and nonoperating impairments, was $161.3 million or $0.38, the same per share level as last year's third quarter. Our NOI increased $7.4 million compared to the same quarter last year and was offset primarily by lower tax benefit from our TRS merger last year.

During the quarter, we moved Phase I of our Grand Parkway development project into the operating real estate line as occupancy is approaching 90%. Grand Parkway provided $1.6 million of NOI during the third quarter. It's important to keep in mind that we have over $360 million invested in development projects, which are not earning today, thus impacting our FFO growth in the short-term. These development projects will begin flowing in stages in the latter half of '18 and into 2019.

Our operating portfolio continues to deliver positive results. Same-site NOI growth was 3.1% for the third quarter and includes negative 20 basis points impact from redevelopments. For the 9 months, same-site NOI growth was 1.7%. With no incremental contribution from redevelopments, as we started a similar number of new redevelopment projects to those that have been completed. The Boulevard redevelopment project Conor mentioned is an example of this. Taking into account our year to date same-site NOI performance, we're revising our full year same-site NOI growth assumption to 1.5% to 2% from the previous 2% to 3% range. This is primarily due to the timing of contributions from redevelopment projects, the 320 basis points spread between leases executed versus rent commencement and the expected business interruption in the fourth quarter at our 7 Puerto Rico assets due to Hurricane Maria. Although our insurance will cover the substantial portion of lost rent and physical damage, the timing of payment covering business interruption is not expected to be received in the fourth quarter.

It was a very active quarter on the balance sheet front. We issued $850 million in unsecured bonds, $500 million at 3.3% and $350 million at 4.45%, with a weighted average life of 16.7 years. We completed the $206 million refinancing of the mortgage at our Tustin property with a new 13-year mortgage at a reduced rate of 4.15% versus 6.9% previously, and issued $225 million of perpetual preferred stock at a coupon of 5.125%.

Proceeds from the bond and preferred offerings were used to redeem $225 million of 6% preferred, $211 million of our 4.3% bonds due in 2018 and to repay the outstanding balance on our revolving credit facility. As a result of these transactions, our weighted average debt maturity now stands at 10.8 years, one of the longest in the REIT industry. We have over $2 billion of immediate liquidity with less than $100 million of debt maturing in 2018. Our balance sheet and liquidity position are in excellent shape.

Let me spend a moment on 2017 guidance. Based on our 9-month results of NAREIT-defined FFO per diluted share of $1.17 and our FFO as adjusted per diluted share of $1.13, we are narrowing our guidance range for NAREIT-defined FFO to $1.55 to $1.56 per diluted share from the previous range of $1.53 to $1.57 per share. Similarly, we are narrowing our FFO as adjusted per diluted share guidance range to $1.51 to $1.52 from the previous range of $1.50 to $1.54.

We're pleased to announce that based on our 2017 performance and expectations for 2018, our Board of Directors has approved an increase in the common stock quarterly cash dividend to $0.28 per share from $0.27, an increase of 3.7%. The increased dividend level represents a conservative and safe dividend payout ratio in the low 70s area, and based on the current share price, a dividend yield of 6%.

We will provide 2018 guidance on our next earnings call. As a reminder, our initial 2018 NAREIT-defined guidance will not include any transactional income or expense. Our NAREIT-defined FFO per share range and our FFO as adjusted per share range will be the same at the start of the year and will only differ upon completion of specifically identified transactional events. And with that, we'll be happy to answer your questions.

David Bujnicki - *Kimco Realty Corporation - SVP of IR and Strategy*

We are ready to move to the Q&A portion of the call. (Operator Instructions) Francesca, you can take our first caller.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Craig Schmidt of Bank of America.

Craig Schmidt - *BofA Merrill Lynch, Research Division - Director*

I was wondering when I look at the total size -- the GLA size of both Whittwood and Jantzen Beach, I just wondered if there is a different way of underwriting these very large centers? Are there different opportunities you see here? And what are the risks you consider when you make these purchases?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes, absolutely. We're underwriting several opportunities at both properties. And we really believe that the size of these assets gives us the ability to create substantial value. When you look at Jantzen, you have several undeveloped outparcels that are immediate near-term upside opportunities, and then you have the below-market leases there that give you the opportunity longer term. Both assets, we think have very similar attributes. In that longer-term, we think that there is additional density that can be added. At the Whittwood shopping center, we've already started the process with the municipality of master planning the entire asset. And we began that process while we were going through the loan assumption process. So given the size of the 54 acres in Los Angeles, the surrounding density and the initial positive reception that we've had from the city, we think that that's a very viable strategy. When you look at the anchors that we have at Whittwood, while we do have several large tenants there that will have to be moved around or replaced in time, once we have that liquidity in the site. We think that it's prudent in advance to really start that process of the master planning and if you look at specifically Sears and JCPenney, those are opportunities that we think at the appropriate time, that we can move forward with a negotiation and recapture of those spaces. So we think that the size and the below-market leases and the tenants that we're dealing with give a lot of upside opportunity.

Craig Schmidt - *BofA Merrill Lynch, Research Division - Director*

Okay. And are you seeing the appetite increase from the big-box Junior anchor category? Or has it pretty much been where it's been for the past year?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

On the big-box demand-side, it's definitely, it's probably pretty consistent across the board. It's really that Junior boxes with the off-price that are continuing to really thrive and want to expand the store count aggressively. That's where we see the most demand.

Operator

The next question comes from Christine McElroy of Citi.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

Just in Puerto Rico, what percentage of your rent and recoveries are you not actually collecting today? And when would you expect business interruption proceeds to start to kick in? And then just bigger picture, what's your view of the longer-term impact of this event on sort of the retailing business in Puerto Rico and thinking about kind of the longer-term viability of these centers as well as on the value of commercial property on the island?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

So in terms of the rent, so ABR from Puerto Rico makes up about 3% of rents. So it's about $32 million a year, $8 million for the fourth quarter. Our guess is, you might have 25% of that, that might be at risk for collection as we still evaluate what's happening on the island. As Conor mentioned, tenants are opening, but -- again, small shop tenants we're still evaluating and we'll have to see how and when that rent starts flowing again. So we think there's a risk of a couple of million dollars there. And that represents roughly 100 basis points of same-site NOI for the fourth quarter, which would equate to about 25 basis points of same-site NOI impact for the full year. We're still evaluating what's going to happen. In terms of the proceeds, you have to first put your claim in. Claims would probably start getting paid 60 days after those claims are in, but we haven't filed any business interruption claims yet because we're still evaluating it. You need to get the full picture before you start putting the claims in. So as I mentioned in my opening remarks, I don't expect that we'll have claims paid to us really in the fourth quarter. We'll start recouping the business interruption part of it in 2018.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

And then just your longer-term view on Puerto Rico and the business there and real estate value?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

I think Puerto Rico longer term, they have a very manageable retail per capita when you look at the island. So when you look at the rebound of hopefully the island's recovery, it really will tie back to how quickly they can get the grid back up and running, how quickly they can get services and really power to the entire island. Clearly, everybody has been seeing it in the news, and we've been working hard in getting our grocery stores and our home improvement anchors open as quickly as possible. But longer-term, you're going to have to wait and see in terms of really what kind of impact it had on the population and really how many people moved back after the island gets stabilized.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

I mean, again, keep in mind who the tenants are in our centers, which is important, right. It's really everyday goods and services, it's discounters, some Home Depots and Kmarts. It's really everyday goods and services, which is what really drives the island.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

Great. And then just second question, Ross, you mentioned about selling substantially more in 2018 than you're buying. How do you think about executing on that from a tax efficiency perspective and would proceeds go more towards paying down debt or supplementing sort of free cash flow in funding the redevelopment discipline?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes, I think it will be a combination of both. I mean, we haven't definitively finalized the exact capital plan, but the expectation is that we would probably look to acquire no more than $200 million next year and then sell certainly in excess of that. So it will depend on which assets ultimately gets sold and the basis for each one. But we're working very closely with our tax group to make sure that we manage that efficiently. But the expectation would certainly be to use that to delever as well as fund the rest of the business.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

We have full ability to shelter the gains within our whole framework. So it's not -- we're not required necessarily to have to do 1031 exchanges and buy more assets. We can absorb a pretty substantial amount of gains as we go through the year that would change the composition of what our dividend would look like. You have probably a lot less return of capital and more capital gain component to it. But there's plenty of capacity for us to absorb gains.

Operator

The next question comes from Jeremy Metz of BMO.

Jeremy Metz - *BMO Capital Markets Equity Research - Director & Analyst*

In terms of the reduced same-store NOI guidance, the leased versus economic occupancy gap is one of the items that seemed to miss expectations here in state. They're wider than you had anticipated. So I'm just wondering what your timing expectations are now as we hear today for this narrowing? And as we look at the 3Q number, obviously, you seem to get a benefit on the expense side, I assume this was maybe a tax reversal. Was this anticipated when you held the range last quarter?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Yes. Yes. I mean, we have some tax refunds that came through that were specific to us, that helped drive that. And we also have -- we do have an increase in the NOI line in total, so revenue increase as well. So yes. But when you look forward, again we do expect as we go into 2018 that, that 320 basis point gap between economic and leased occupancy will start to shrink and that is part of the driver. We've been doing a lot of leasing, but we've also -- it's been matching up. So we haven't shrunk that number, right. That number is growing. It was 200 basis points of spread this time last year, now it's 320.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

The other piece too, just to keep in mind is, because obviously the hurricane had a pretty big impact on our Puerto Rico portfolio, which had a negative impact on our same-site NOI. So that's something that's unforeseen, and we continue to try and manage that.

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Yes. And then when you think about also the guidance that 2% to 3% range that we had. If you break it down, redevelopments in the high-end of the number, in the 3% had 40 basis points in it. So as we reported, right now, redevelopments have had 0 impact. We haven't earned anything from that. So that's at the high-end down by 40 basis points. You have, as I mentioned, 25 basis points reduction from Puerto Rico that was not anticipated. There is about another 15 to 20 basis points that relates to the timing of the rent commencements. And then on the high end, if you recall, our credit loss was 75 to 100 basis points. So on the high end at the 3% level we only had 75 basis points of credit loss in that number. And we're running closer to the 100 basis points. So if you take all those components, you're going to reconcile down to -- how we got down to 2% for the year.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

And just to add on The Boulevard and Staten Island, those entitlements that we secured had a bigger negative impact on pulling down the same-site NOI because we got it earlier than anticipated. So longer-term, it's a big benefit, but shorter-term clearly the same-site NOI is reduced a little bit.

Jeremy Metz - *BMO Capital Markets Equity Research - Director & Analyst*

That color is helpful. And then just switching gears to my second question here. Maybe a question for you, Conor, I don't know if Ray is on the line with us. But can you talk about Albertsons a little bit in the recent filings for a sale-leaseback which I think was for about 70 properties and a little over $700 million. Just kind of what this means in terms of your ability to monetize your position. Could we see additional sale-leasebacks going forward, as eventually it looks to take some chips off the table. Any color here would be great.

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

Yes, sure. Hi, this is Ray. The sale-leaseback that was announced, $720 million, which is supposed to close the beginning of next week. The intention there is to delever the company. The company is looking at potential other smaller sale-leasebacks, some other assets that they have -- some distribution centers that -- as they merge the companies, they're becoming available as a way to generate some proceeds to pay down debt. And help, by delevering the company, to make it more marketable company as we keep our S-1 on file and hope as markets change to have a public offering. So it's all focused on improving the balance sheet of the company and main focus on that as we drive the business.

Operator

Your next question comes from Richard Hill of Morgan Stanley.

Ronald Kamdem - *Morgan Stanley, Research Division - Research Associate*

This is Ronald Kamdem on for Richard Hill. Just had 2 quick questions. The first is just going back. Can you just walk us through what drives the variability in lease compressions. When -- presumably, our understanding is that the contracts have a fixed start date. So if you can just -- maybe just help us understand what instances can drive that variability, that would be pretty helpful.

David Jamieson - *Kimco Realty Corporation - COO and EVP*

Sure. Yes, this is Dave Jamieson. With anchor tenants and junior anchor boxes, as we're going to the permitting process there are tender dates and where we complete our work and we tender it over to the tenant. There is a permitting window that the tenants goes through as well for their right to complete their box. Sometimes dependent on the use and dependent on what you're doing specifically to that box may add some additional time to that permitting process, which may delay variability to open and impact the RCD that said, it doesn't necessarily increase the cost on our side of the equation. But those are some of the variables that set in. Sometimes, for example, you may have to go for a parking variance -- in which the city then you have to work through that entitlement. So those are a couple of the components that can drive and impact the open date itself.

Ronald Kamdem - *Morgan Stanley, Research Division - Research Associate*

Great. And then my second question was, just so we understand the impact on Puerto Rico correctly. So am I thinking about it right that presumably this should be a boost to same site, as we're thinking about 2018 when you do get the business interruptions?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Yes, in short and sweet, yes. I mean, as soon as the business interruption claims come in, it's rent that's collected that we're not collecting now.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Right. Remember, same-site NOI is on a cash basis.

Operator

The next question comes from Ki Bin Kim of SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So on Puerto Rico, the 25% of rent at risk, given that your properties are mostly up and running or at least that's what it sounds like, something to remember. What was the cause of that? Is that tenants just decided to stop paying rent? Is it damage? Or is it the fact that maybe these smaller tenants didn't have their own insurance, which is causing some of this?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

We you have a few things, right. The larger anchor tenants have generators that are up and running. So that's how they're able to run their stores. The smaller shops, which is about half the rent that comes from all the tenants at the 7 properties. A lot of them don't have generators. A lot of them are small-store businesses where quite candidly some of them lost their homes. So we're still evaluating just how much of that is missing. So we're trying to be realistic about what we have. We know half of our rent is coming from small shop space. So it was making an estimate that some portion of that, as much as 50% of that, could be potentially at risk during the fourth quarter. Now, again, most of it will be covered by business interruption insurance, but more importantly, we'd like to get the tenants back open and running so that they can provide their goods and services to the communities.

David Jamieson - *Kimco Realty Corporation - COO and EVP*

Yes. And just to add read some color to that. On the anchor boxes, our largest boxes are open and operating. We have 2 Kmarts that are fully functioning; Sam's Clubs, we have 2; Home Depot, we have 2; and Costco, we have 1. So amongst our 7 properties. The big guys are opening, and they're obviously providing very necessary services during this restoration process. As it relates to the small shops it does vary site-by-site. Three of our centers which have a substantial majority of this small shops already opened and operating. But to Glenn's point, power itself is intermittent because it's based on generators and/or if there is some restoration power through the grid, it does vary time-to-time as we know the conditions in Puerto Rico still remain very difficult. So we'll continue to see that improve. But for now, just want to take more cautious approach.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And a quick one here, those business insurance -- interruption insurance, does that cover for 1-year or is that for the duration of the lease?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Well, we have a blanket policy. So in total we have a coverage up to $39 million of business interruption. So in theory, in Puerto Rico, you could lose every single tenant for the entire year, and we would be covered.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. And just last question here on your same-store NOI guidance. If I look back at what it was originally, and what it is today -- would it imply for the fourth quarter is -- with adjusted guidance it's probably about 1% you're saying maybe 50 basis points to 100 basis points came from Puerto Rico. So maybe at the high end that'll put you at 2%, but still feels like versus original guidance, which was probably the mid-3s or higher feels likes a pretty material drop-off. I know you've talked about couple of different items, I might have swung at. But just curious what was the -- maybe unexpected change in leasing or timing of occupancy that led to the guidance decrease?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Well, just go back a minute. If the estimate that we have for Puerto Rico is that in the fourth quarter it impacts us by about 100 basis points. Based on our forecast, we still have at the midpoint of our range that the fourth quarter would be 1.75% of same-site NOI growth. If you added Puerto Rico back, it would be at 2.75%. And again, as I mentioned, you do have some impact from the timing of the rent commencement. So you should put all that back together from our original guidance, you would be in that 3% range similar to where we were for the third quarter.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

And the other piece of it is the ylan development, redevelopment that we announced. That, again, we secured entitlements that we can start the project, which has, again, a little bit of a hit on the same-site NOI in the short-term, but longer-term it's a Signature Series asset that we're excited to get going on.

Operator

Next question comes from Alexander Goldfarb of Sandler O'Neill.

Alexander Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior REIT Analyst*

So 2 questions. First, obviously, we've been in a period of time for depressed cost of capital, depressed stock prices. I understand that Whittier was a 1031 exchange. Don't know if your dynamics would have changed, if you were to undertake that underwriting today versus when you originally did. But as you guys talk about mixed used projects and different external investments. Even if you're sourcing it from dispositions, does where your stock is trading or the now year decline in the stock prices. Does that at all affect how you guys think about the external side? Or is it independent because as long as you can fund it from dispositions, you're agnostic?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes. The short answer is, yes. The cost of capital is definitely -- has an impact on our evaluation of future investment opportunities. When we looked at Whittwood and Jantzen, those were deals that were both put under contract early in the year, March and April. So obviously, we had hoped that by this point of the year our cost of capital would be different than where it is today. So that being said, we're very excited about those 2 assets, and we did utilize the dispositions to fund those. But on a go-forward basis, the expectation is that without a substantial change in that cost of capital, our external investment will be significantly lower.

Alexander Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior REIT Analyst*

Okay. And then the second question is just, again, the classic, I know you guys aren't giving 2018, but still given the questions around same-store NOI. As we think about the next round of store closings, Ascena or toys or pick your favorite one. How should we be thinking about 2018 as far as because the re-leasing spread seems fine. So it seems more like the risk is on store closings and timing to backfill. So as you guys think about the same-store NOI construct. How much of it do you think is in that cushion part that would be affected by store closings? Is it 100 basis points? Is it more than that 150 for next year? What are your sort of initial thoughts as you speak to the tenants today?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

I mean, well, first of all, we're still going through our own budget process. And we're still evaluating where we think real potential risk is of store closures. We've been running this 75 to 100 basis point look in terms of credit loss. So that's another area that we're evaluating. But I think overall, when we look at the portfolio, and where we are at an occupancy level and things that we see online, we do expect that same-site NOI growth will be higher next year than what we are today.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Yes. I think that's right. I mean, if you look at our portfolio, I mean, if you look at really the targets for next year, we do still have a very large spread between physical and economic occupancy. We do anticipate that the credit loss will be similar to this year. So that is something that we will probably keep consistent next year.

Operator

The next question comes from Samir Khanal of Evercore ISI.

Samir Khanal - *Evercore ISI, Research Division - MD and Fundament Equity Research Analyst*

Just similar to what Jeremy had asked before on the lease versus occupied. But I know we have the rent commencements to the prior -- the Sports Authority boxes to be a tailwind to growth next year. But just -- when you look at those rent commencements, I mean, when do the majority of those kind of role through. I know you had 20 boxes that have been leased up at this point. Are we talking -- is this more of a second half event for next year?

David Jamieson - *Kimco Realty Corporation - COO and EVP*

For the ones that we leased -- this is Dave. For the ones that we leased in the beginning of this year and towards the end of '16 itself, you'll start to see them flowing at the very end of this year and into the beginning part of '18, as well. And so from there I know just gradually build and progress throughout the course of 2018.

Samir Khanal - *Evercore ISI, Research Division - MD and Fundament Equity Research Analyst*

Okay. And then I guess, the next question from me is on the acquisition that you did with Whittwood. I know there is some opportunity to release some of the department store boxes. But I mean, I guess, at this point, is this sort of a short-term event? Or is it more of a -- when do you expect to get those boxes back? I mean, how much term is left on those leases?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes, I mean, the -- one of the anchor leases is within our 10-year hold that they expire with no further options. The other large anchors do have a little bit of further term, anywhere from 16 to 20 years in total. But I would assume that those tenants would be in place through the end of all their option periods. We have had some success with recapturing Sears Kmart boxes in advance, and they're typically pretty opportunistic about that. If they get an economic deal that makes sense. So our expectation is that by the time we really go through the master plan process and deal with the entitlements with the city that we'll be in a position to approach those tenants, if they're still active at the site -- in order to recapture sooner. So we think it's a nice opportunity. It gives us the occupancy and the income in the short-term. But when we're ready, we will approach them. And we think there'll be some receptibility to that on the tenant's part.

Operator

The next question comes from Vincent Chao of Deutsche Bank.

Vincent Chao - *Deutsche Bank AG, Research Division - VP*

Just wanted to go back to the Puerto Rico here. On the $32 million of NOI annually that's at risk. Does that include all income, including ancillary income and any percentage rents you might be getting and are those 2 categories also covered by business interruption?

David Jamieson - *Kimco Realty Corporation - COO and EVP*

Yes. They -- it does include ancillary income. It does not include percentage rent. Percentage rent is just an additive component to that. As it relates to business interruption insurance, it would include that. If you have historic performance that identifies the type of income you would have received otherwise, prior to an event, then you have a case in which you can claim business interruption insurance.

Vincent Chao - *Deutsche Bank AG, Research Division - VP*

Okay. And then just in terms of the small-shop tenants that are struggling a little bit more, obviously. Do you have a sense at this point of how many of them might just simply close shop as opposed to trying to reopen them. I mean, obviously, if they choose to leave, then obviously I would assume that there's no business interruption in that case?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

It's still too early to tell. I think that most of the small shops that's their livelihood, and they're racing to try and keep those stores back open as quickly as possible. And that's the response we've heard from our team on the ground there that everybody is working as hard as possible to get their stores back open.

Vincent Chao - *Deutsche Bank AG, Research Division - VP*

Got it. Okay. And then maybe just last one, if I might. Just on the Whittwood. Just looking at some disclosures from DDR there, it seems like this is sort of a low 4 cap going in. Is that more or less correct?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

No, it's in the low 5s.

Vincent Chao - *Deutsche Bank AG, Research Division - VP*

Low 5s, okay.

Operator

The next question comes from Brian Hawthorne of RBC.

Brian Hawthorne - *RBC Capital Markets, LLC, Research Division - Associate*

Just one question now. With the same-store NOI with redevelopments that was lower than -- yes, lower than -ex redevelopments. When do you expect that to reverse?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

We should start to see some benefit during 2018. That's when -- we will put our full guidance together and report on that in February with our call. But I would expect that you can start seeing some benefit in '18.

Brian Hawthorne - *RBC Capital Markets, LLC, Research Division - Associate*

Any signs like earlier first half, second half?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

It's probably more towards the second half and then into '19.

David Bujnicki - *Kimco Realty Corporation - SVP of IR and Strategy*

Yes. We'll know better once we finish up our budgeting process, and we can report to you in February.

Operator

The next question comes from Michael Mueller of JPMorgan.

Michael Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just wanted to try to get a little bit more color on the term substantial that you used to talk about asset sales. And I understand that you don't want to put numbers around -- it is still early, you're going through budgeting. But I mean, you're a big company and can you give us some sort of sense is it substantial, is it a couple of hundred million you're thinking north of which you could acquire, is it a billion? Just how substantial are you thinking this to be for 2018?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes, it's still a little bit up in the air in terms of our definitive strategy. It does go in tandem with our budgeting process. So we evaluate each asset and look -- in the portfolio and look at where the growth is coming from, where the risks are. So it would be a little premature to give you a definitive number. But as I mentioned, if the expectation is that we'll probably be targeting around $200 million of acquisitions. We think that it will be certainly in excess of that. What -- at what magnitude we're really not certain yet.

Operator

The next question is from Vince Tibone of Green Street.

Vince Tibone - *Green Street Advisors, LLC, Research Division - Analyst*

You mentioned you recaptured a few Kmart boxes this quarter. Can you talk about your philosophy of paying to get boxes back early versus just waiting for the tenant to close? And then also, is the cost of recapturing that box included in the TIs or landlord work on the re-leasing spread page of your supplemental?

David Jamieson - *Kimco Realty Corporation - COO and EVP*

Just to clarify, the 2 that we recaptured this quarter, those were natural lease expirations with no options expiring. So we didn't pay anything to get those back. Within in most of those, one was actually in our Hylan project and so thats part of a major redevelopment. The other one was in Los Angeles, where we're currently splitting the box and adding in a Ross and a dd's as well as a Vermont-Slauson site. And that in itself on the value-creation component of splitting that box is part of our leasing cost number.

Vince Tibone - *Green Street Advisors, LLC, Research Division - Analyst*

Okay. Great. And then one more. Can you quantify the exact drag on same-store NOI from The Boulevard going forward for the next few quarters? And then what -- and also what incremental yield are you expecting to get on that project over your current in place rents?

David Jamieson - *Kimco Realty Corporation - COO and EVP*

So in terms of the incremental yield for that, we're targeting anywhere from a 6% to 8% incremental yield on that. And we're adding 100,000 square feet of retail as well. In terms of the same-site drag, have to report back to you on that one. And we'll make sure to follow-up with you.

Operator

The next question is from Linda Tsai of Barclays.

Linda Tsai - *Barclays PLC, Research Division - VP and Research Analyst of Retail REITs*

In terms of this $62.5 million in dispositions, could you just give us some more details about the 4 centers and then the mid-7s cap rate. Is that a reasonable level you expect going forward?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes, it's a combination. When we look at our blend of 7.5%, it's probably on average somewhere in the low to mid-7s as we see the rest of the assets that we have currently under contract. It's really geographically diverse. We sold one asset in Georgia, one asset in California. Several have grocery components, others are true power like the one in Joplin, Missouri. So there really isn't a trend. It's just constantly evaluating the portfolio and pruning where we see risk or markets that we don't anticipate continuing to operate in long-term.

Linda Tsai - *Barclays PLC, Research Division - VP and Research Analyst of Retail REITs*

And then just on Albertsons for the 71 stores, do have any sense of what the cap rate was for those?

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

It was like somewhere -- not very sure somewhere in the mid-6s, I think. It is a broad spectrum of properties from California to Wyoming and Chicago spread out.

Linda Tsai - *Barclays PLC, Research Division - VP and Research Analyst of Retail REITs*

And do you see that as representative of the overall portfolio?

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

Actually, cap rate wise, it's probably a high cap rate because they really kept out most of the -- most-valuable properties from the sale-leaseback. They kind of put the middle-of-the-road properties in the sale-leaseback.

Operator

The next question is from Nick Yulico of UBS.

Greg McGinniss - *UBS Investment Bank, Research Division - Associate Analyst*

This is Greg McGinniss on for Nick. Just thinking about closing that occupancy gap you have. Does the redevelopment, redelivering no Puerto Rico impact. Could we potentially be seeing same-store NOI in the 4% range next year?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

We're still running through our full budgets. But I -- we're fairly comfortable that it will be higher than the current year.

Greg McGinniss - *UBS Investment Bank, Research Division - Associate Analyst*

Okay. And then with the dispositions, I know you've commented a little bit on it, but is there any thought as to how much FFO dilution you're willing to absorb?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

It's a good question. It's all part of our budgeting process and our capital planning, but we will certainly take that into consideration when we finalize the number and put out our guidance in February.

Operator

The next question is from Christine McElroy of Citi.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

It's Michael Bilerman here with Christine. Conor, I was wondering you talked about sort of capital allocation in the sense of match funding, and whether you're going to have a different cadence going forward. And clearly, you've talked about going into contract on Jantzen and Whittwood earlier in the year and given that -- I've seen your deposits that you had and their relationship on the seller side, you didn't feel it was something you wanted to back away from or get out of. But at the same time, it's your balance sheet while kind of done a great job of pushing out term and lowering the cost. Your debt-to-EBITDA has moved up 1/2 a turn over the last year. So would you think about if putting your stock price aside, trying to make sure that maybe you fund potential acquisitions early so that you're not caught in this quandary of having to close on transactions when you're cost of capital you wouldn't be doing these deals today, if they were presented to you given where it is, or you would seek probably joint-venture capital to do them. Can you talk a little bit about sort of has this experience changed how you're going to approach external growth from a match-funding perspective at the time you enter and go hard on the deal?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Yes, absolutely, Michael. I think you've raised a good point that Ross has analyzed pretty deeply in his remarks. I think with our current cost of capital, we see ourselves being really -- the signal is clear that we should be a net seller next year and that's what we anticipate to do. Because of the long loan assumption process on Whittwood, we obviously felt that when we put the project under contract versus where we are today, it was a different situation. Going forward, we do see that we want to make sure that we prioritize our balance sheet, prioritize really our net debt-to-EBITDA going forward. And that's why we'll continue to probably sell more and really just focus on adjacent parcels in the next year that will probably lend itself to future redevelopment projects. But going forward, we do see ourselves being a net seller for next year where our current cost of capital sits.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

And can you just sort of help understand a little bit, why you wouldn't have brought in institutional capital into these types of deals? A, to demonstrate to the market that institutional capital is willing to pay these type of cap rates for large power centers, especially given Glenn's comments about next year's sales. Glenn said that there was plenty of room to absorb any gains without the need to do 1031 and just absorb it within the common dividends. So I just sort of struggle a little bit that -- one of the reasons here you've been given for these 2 big deals is, well, they were 1031s while you could have pushed more of your common dividend to capital gain and return of capital and brought in a large institution to co-invest with you in these assets?

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

Yes, it's a good point. I mean, we look at our JV platform as one that we can tap into when appropriate. And it may be that time again in the near future. When we look at these 2 assets, it's one that, again, we felt we're a perfect fit for the quality and upgrading the portfolio and continue to see that as these assets we think are really gems longer term as they lend themselves to Westlake-esk, where we've created a lot of NAV. But going forward to your point, I mean, there is that opportunity. We really do respect and admire our JV partners and know that they want to do more with us. So we do have that card to play, and we'll look at that going forward.

James Bambrick - *RBC Capital Markets, LLC, Research Division - Associate*

Would cap rates be different if you were to bid on these assets today. Do you think they've expanded 50 basis points since March, April?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

I really don't believe so, especially when you look at Whittwood, I mean, that -- the process that is being run by the sellers was one where we have a fantastic relationship with them, given our prior joint venture partnership. And it was really a negotiated deal. And we think that it's one that was well negotiated on our part, clearly made sense for the seller as well. But we think it was a good deal for both sides. And I think that had they mass marketed it, a very similar price, if not a more aggressive price could have been found in the marketplace.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

And we haven't really seen cap rates move at all for the really high-quality assets like Jantzen and Whittwood. It's a very competitive market for those types of deals with significant value-creation opportunities in the best markets. And that's really where we've been focusing and picking our spots.

Operator

The next question is from Chris Lucas of Capital One Securities.

Christopher Lucas - *Capital One Securities, Inc., Research Division - Senior VP& Lead Equity Research Analyst*

Glenn, a quick one for you. You took out more than half of the 6% preferred. There's still some remaining. What's your plans for the remainder of that? And why didn't you fully redeem out that $400 million preferred?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

At the right time, we will redeem the balance of the 6% preferred. Again, we're trying to balance total look through of consolidated net-debt-to-EBITDA, including it with preferreds. When we went to the market, we went with a very aggressive rate, the 5.125% was pretty aggressive. So we took out what we could get done at that point. I mean, we could always go to the debt market and replace it at a lower rate. But that's just going to put more pressure on consolidated net-debt-to-EBITDA. So look -- we will take it out at an opportunistic point.

Christopher Lucas - *Capital One Securities, Inc., Research Division - Senior VP& Lead Equity Research Analyst*

Okay. And then -- I appreciate that. And then just going back to the prior comments. It relates to the disposition environment, I guess, one question would be, what are the characteristics of the stuff that you're looking to put on the market for sale for next year? And how is the market receptivity for those kind of assets, talking about high-quality assets still getting a very competitive bid. But what about more middling or lower quality assets? And what should we be expecting in terms of the quality of the portfolio of properties that you're looking to dispose of next year?

Ross Cooper - *Kimco Realty Corporation - President and CIO*

Yes, I mean, as we've continued to call the portfolio even the Tier 2 assets that we look to dispose of are of a higher quality, generally speaking than previously. So it will be a combination of assets where we continue to see longer-term risk in the asset, even if there is stability today. Trying to take a longer-term approach on our portfolio management and seeing which assets we believe have a longer-term opportunity to redevelop or create value or if the highest and best use is a stable retail center then it may be at the time to capitalize on the fact that there is still a viable market to exit these assets. So the reception to these assets we've been marketing generally has been strong. I mentioned the 2 examples in Missouri and in North Carolina where we had 7 and 14 bids, respectively. So I think for higher quality assets, particularly if there is some vacancy or perceived upside to the buyer, there is plenty of capital that's still excited about investing in that. And then we'll take a look at some of the higher quality assets that are flat longer term and see if it makes sense to monetize today.

Operator

Our final question is from Tamara Fique of Wells Fargo Securities.

Tamara Fique - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Now that a little time is left, have you had any new discussions with Whole Foods and has Amazon's involvement changed their appetite for new stores or the redevelopments of existing stores?

David Jamieson - *Kimco Realty Corporation - COO and EVP*

Yes, we've been actively engaged in Whole Foods. Obviously prior to the acquisition, we had all noticed that, I think, it stalled a little bit. But they're very much on the expansion -- some are looking for new opportunity to expand. In terms of how they utilize, how Amazon will utilize the Whole Foods locations. They still keep things very close to vest. So it's yet to be seen. I think we all have opinions and there's a number of opportunities in which they could do with the 4 walls. But to our benefit, they are absolutely actively looking to expand within the market.

Tamara Fique - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. Great. And then my follow-up question is just understanding that you are sensitive to leverage levels. But with additional asset sales expected next year, where do share repurchases rank versus sort of other uses of that capital?

Glenn Gary Cohen - *Kimco Realty Corporation - CFO, EVP and Treasurer*

Well, again, share repurchases put pressure on leveraged metrics net-debt-to-EBITDA. So first and foremost, we want to bring our leverage levels down to the targets that we planned for, before you'd start getting to share repurchases. Don't forget also, we still have a fairly significant redevelopment pipeline that has pretty significant yields to it, even where the implied price of the stock is today. So we have uses of capital. But first and foremost, is to bring leverage levels to the point where we want them.

Conor C. Flynn - *Kimco Realty Corporation - CEO and Director*

I think the share buyback is constantly being discussed and that these levels, we need to make sure that our debt levels don't come under pressure. But we do see it as something we'll continue to monitor.

Operator

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

David Bujnicki - *Kimco Realty Corporation - SVP of IR and Strategy*

Thank you very much and thank you for everybody that joined our call today. Have a good day.

Operator

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