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KIM - Q4 2018 Kimco Realty Corp Earnings Call

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OVERVIEW:

Co. reported 2018 NAREIT FFO per diluted share of $1.47 and FFO as adjusted of $1.45 per diluted share. 4Q18 NAREIT FFO per diluted share was $0.35 and FFO as adjusted was $0.35 per diluted share. Expects 2019 FFO per diluted share to be $1.44-1.48.

CORPORATE PARTICIPANTS

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

David Jamieson *Kimco Realty Corporation - Executive VP & COO*

David F. Bujnicki *Kimco Realty Corporation - SVP of IR & Strategy*

Glenn Gary Cohen *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

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

Ross Cooper *Kimco Realty Corporation - President & CIO*

CONFERENCE CALL PARTICIPANTS

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

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

Caitlin Burrows *Goldman Sachs Group Inc., Research Division - Research Analyst*

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

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

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

Derek Johnston *Deutsche Bank AG, Research Division - Research Analyst*

Greg McGinniss *Scotiabank Global Banking and Markets, Research Division - Analyst*

Haendel St. Juste *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

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

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

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

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

Samir Khanal *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

PRESENTATION

Operator

Good day, and welcome to the Kimco's Fourth Quarter 2018 Earnings Conference Call and Webcast. (Operator Instructions) Please note, this event is being recorded.

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

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Good morning, and thank you for joining Kimco's Fourth Quarter 2018 Earnings Call. Joining me on the call are Conor Flynn, our Chief Executive Officer; Ross Cooper, President and Chief Investment Officer; Glenn Cohen, Kimco's CFO; David Jamieson, our Chief Operating Officer; as other members of our executive team that are present and available to answer questions during the call.

As a reminder, statements made during the course of this call may be deemed forward-looking and 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. Reconciliations of these non-GAAP financial measures can be found in the Investor Relations area of our website.

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

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

Thanks, Dave, and good morning, everyone. Today, I'll give a brief overview of our 2018 achievements, discuss the retail real estate landscape facing us in 2019 and outline some of the things we hope to accomplish this year. Ross will then follow with an update on the transaction market, and Glenn will close with our financials and outlook for this year.

A year ago, we set some ambitious goals for leasing, development and dispositions that we knew would require extraordinary execution. Here, we are, 1 year later, and I'm proud to announce that we have exceeded those goals and delivered positive results across the board. We surpassed the high-end of our initial guidance range for FFO and same-site NOI and achieved an all-time high in small shop occupancy at over 91%. We completed several development and redevelopment projects, including our first large-scale Signature Series mixed-use development and exceeded our goal for dispositions, enabling us to end the year with a much stronger and better-positioned portfolio.

These accomplishments are a testament to the exceptional efforts of our quality team. I want to thank all of our associates who live and breathe the Kimco way. Notwithstanding our 2018 accomplishments, we will not and cannot rest. On the contrary, how we respond to the challenges and opportunities of 2019 and beyond will determine our future success.

Winston Churchill famously said, "If you don't take change by the hand, it will grab you by the throat." These words ring true as much today as when they were first uttered. Change is occurring all around us, and the retail real estate landscape is not immune.

As the retail environment continues to evolve with new concepts and strategies to meet the needs and demands of today's consumer, the status quo is not an option. E-commerce and distribution have dramatically changed some of the most longstanding retail concepts, trade area, store counts and even what constitutes a sale, just to name a few.

2019 will produce new winners and underperformers. Store sizes will change, and more e-commerce retailers will open physical locations. So while the demand for high-quality retail real estate in 2018 remains strong, as evidenced by our solid performance, the landscape in 2019 and beyond continues to change, and we have repositioned our portfolio to capture those opportunities that change inevitably brings.

Our strategy is simple, own the best real estate in the top 20 markets where consumer demand is high and supply constrained. Our portfolio is now tightly concentrated in high-growth areas where there are significant barriers to entry. We have removed the drag from underperforming assets and have invested in our best assets and our people.

We believe that the high-quality, open-air shopping center that comprises our portfolio is the right product for the future. First off, the physical store is here to stay. It may look different in the years to come, but the physical store continues to be the heartbeat of a healthy brand experience and the cheapest and most effective form of customer acquisition.

Moreover, many retailers have made it clear that they prize the visibility, convenience, accessibility and modest occupancy cost that our sites offer. More specifically, retailers value the visibility of storefront signage for nearby streets and highways as an important marketing tool. In addition, as more and more retailers add Click & Collect shopping to their customer experience, retailers find that the local convenience and easy access of open-air shopping centers to be a marketing advantage.

Retailers are also seeking our sites because of their suitability for redevelopment and our plans to create mixed-use campuses that have residential, hospitality and entertainment components, not to mention drive-throughs, Click & Collect areas and home delivery hubs.

So while the threat of shadow supply from vacant mall department stores space is real, we believe that in those instances where the mall space is competing with high-quality, open-air space, open-air space will often win out.

As a case in point, in 2018, we were able to lease 80% of our Toys"R"Us boxes in just 6 short months, bringing in thriving retailers that will enhance the overall value and experience at these centers. Similarly, if opportunities arise out of the Kmart Sears saga, we're confident that we can create value and worth noting is that our exposure is now limited to just 13 locations that represent 60 basis points of Kimco's total ABR.

Our Signature Series developments and redevelopments continue to come online, and we expect 2019 to be another year of successful milestones for these projects.

Dania Phase 1 is now open and operating and over 93% leased. Phase 2 is under construction with strong leasing momentum. And we have just added Phase 3 to the pipeline, as demand continues to be robust in the booming market of Fort Lauderdale Dania Beach.

Our Lincoln Square mixed-use project in Philadelphia continues to shine and was recently voted the best new building in Philly by local residents in an online poll.

The Witmer, our Pentagon City mixed-use project in the D.C. market is topped off and will start to lease up later this year. Perfectly timed to benefit from its ideal location directly across from Amazon's new headquarters.

Construction on The Boulevard in Staten Island is progressing nicely with steel in place and the project is now over 92% pre-leased. We believe the Signature Series portfolio will be a key driver of growth as the current projects are completed and the pipeline is refilled with new carefully selected redevelopment opportunities.

2019 is said to be an exciting year at Kimco as we capitalize on our transformed portfolio and drive increased cash flow and value.

And now, I'll turn it over to Ross.

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

Thank you, Conor, and good morning. All in all, it was an excellent year in terms of the execution by our team, and I couldn't be prouder. We finished the year selling an additional 16 shopping centers and 2 land parcels during the fourth quarter, totaling $357 million gross, with $228.4 million Kim share. For the full year, we sold 68 centers and 8 parcels with a value in excess of $1.1 billion, with approximately $914 million Kim share, exceeding the high-end of our $800 million to $900 million guidance range.

The weighted average blended cap rate on these sales closed at the low end of our targeted range right at 7.6%. In order to maximize the pricing, we primarily utilize the one-off approach consummating 71 individual transactions.

Selling this level of properties on a one-off basis is no easy task, and again, a real testament to our team, which includes the deal team, the legal staff, the accounting and tax departments and many others that had a critical role in making sure the execution went over smoothly.

The steps we have taken in 2018 have enhanced the overall quality of our portfolio and consist of the right asset base and geographic locations. The embedded redevelopment and value-creation opportunities will generate a sustained and growing level of recurring cash flow that will drive a higher NAV. We have now sold over $8 billion of real estate since 2010, reinvesting the capital into higher-quality real estate in major markets with substantial future growth opportunities.

As we previously indicated, given the success of our disposition activity in 2018, we anticipate substantially fewer asset sales with just a modest level of asset pruning in 2019. Proceeds will be used primarily to fund our expected development and redevelopment activity.

As for current trends in the market, we continue to see strong investor demand for shopping centers. During the fourth quarter, we sold a grocery-anchored center in Portland at a sub-5% cap rate, with another Northern California grocery deal under contract at sub-5%. And with the 10-year treasury retreating back below 3%, pricing remains strong in all levels of quality with healthy demand.

Overall, the supply of new shopping centers on the market-for-sale has decreased at several institutions and REITs, including Kimco, have reduced their disposition pipelines for 2019. This will serve to keep the supply-demand balance favorable for sellers with cap rates staying low for the foreseeable future.

On the acquisitions front, we anticipate maintaining a very disciplined and selective approach with our most accretive use of funds earmarked primarily for redevelopment opportunities within the portfolio. We still continue to evaluate strategic opportunities that come along and enhance the value of our holdings.

Subsequent to year-end, we closed on a modest $31 million sale-leaseback transaction with Albertsons to acquire the unowned grocery anchors at 3 of our Tier 1 West Coast assets. This included 1 Vons location in San Diego and 2 Safeways located in Phoenix and Truckee, California. We look forward to the opportunities and challenges ahead.

I will now pass it off to Glenn.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Thanks, Ross, and good morning. We ended 2018 with a stronger and higher-quality portfolio. The result of successful execution on the disposition front, strong leasing activity and the completion of several Signature development projects. With a strong balance sheet and strong liquidity position, we're poised to begin growing again.

Now let me first provide some details on our 2018 fourth quarter and full year results and then commentary on our 2019 guidance.

NAREIT FFO per diluted share was $0.35 for the fourth quarter bringing the full year 2018 amount to $1.47. Included in the full year results was net transactional income, which is net of transactional expenses of $7.7 million or $0.02 per diluted share. This was comprised primarily of profit participations from our preferred equity investments, receipt of insurance proceeds related to our Puerto Rico properties in excess of our book basis and various land sale gains offset by $12.8 million of early prepayment charges related to our unsecured bond payoffs.

For 2017, NAREIT FFO per diluted share was $0.38 for the fourth quarter and $1.55 for the full year, which included $11.3 million or $0.03 per diluted share of net transactional income.

FFO as adjusted, which excludes transactional income and expenses and nonoperating impairments, was also $0.35 per diluted share for the fourth quarter of 2018 compared to $0.39 for the same quarter in 2017.

The primary driver of the decrease was a reduction of $22 million in NOI from the sale of over $900 million of assets during 2018, offset by a $6 million reduction in financing costs due to lower debt levels.

Full year 2018 FFO as adjusted came in at $1.45 per diluted share, in line with our previous guidance. This compares to $1.52 per diluted share for 2017. Here, again, the primary driver of the decrease is lower NOI of $27 million related to the asset dispositions during 2017 and 2018. The proceeds from the sales were used to fund development and redevelopment investment of $420 million, reduce outstanding debt by $400 million and buyback $75 million of our common stock at a weighted average price of $14.72 a share.

Turning to the operating portfolio. We continue delivering excellent results. Pro rata occupancy finished 2018 at 95.8%, with anchor occupancy at 97.4% and small-shop occupancy at 91.1%, the highest level of small-shop occupancy we have ever reported.

Anchor occupancy was impacted by the Toys"R"Us and Sears/Kmart bankruptcies during the year. However, as Conor mentioned, excellent progress has been made on releasing those boxes.

Pro rata leasing spreads remain strong for the fourth quarter with new leasing spreads increasing 12.2%. Renewals and options produced a 5.6% increase, bringing total combined leasing spreads to 7% for the fourth quarter.

For the full year 2018, combined leasing spreads were a positive 8.3%. We are pleased to report same-site NOI growth of 2.6% for the fourth quarter and 2.9% growth for the full year of 2018, which exceeded the high end of our previously increased guidance range of 2.7%. Most encouraging is that the same-site NOI increase is primarily the result of accelerated rent growth produced from the significant leasing activity over the past year.

On the balance sheet front, we finished 2018 with consolidated net debt to recurring EBITDA of 6x and 7.5x on a look-through basis, which includes our pro rata share of joint venture debt and perpetual preferred issuances.

Our total consolidated debt stands at $4.87 billion, which is $605 million lower than the amount at the end of 2017.

Our consolidated weighted average debt maturity profile is 10.5 years, with no debt maturities in 2019, and only $45 million of debt coming due in our joint ventures this year.

Our liquidity position is in excellent shape with over $2.1 million of availability from our revolving credit facility and cash on hand.

Now for some color on 2019 guidance and the underlying assumptions. As a reminder, our 2019 guidance excludes any transactional income and expense. As such, our guidance for 2019 NAREIT defined FFO and FFO as adjusted are the same. We will incorporate transactional income and expense as it occurs.

Our initial FFO guidance range for 2019 is $1.44 to $1.48 per diluted share. This guidance range takes into account the impact of the new lease accounting pronouncement, which among other things, now requires the expensing of certain previously capitalized internal leasing and legal costs associated with leasing activities.

The impact is approximately $12 million or $0.03 per diluted share. Without this change, our year-over-year growth in recurring FFO per share would have been 2.8% at the midpoint of our guidance range. Also included in the guidance range is the dilutive impact from the 2018 disposition program. Other assumptions include incremental NOI of $16 million to $18 million coming online from our completed development projects as well as a $5 million to $10 million reduction in interest expense attributable to the lower debt level.

Our initial range for same-site NOI growth is 1.5% to 2.5%. The range considers the impact of the Toys"R"Us and Sears leases already rejected as well as potential fallout from additional tenant bankruptcies. The range also considers the growth opportunity that exists from the 240 basis point spread between our leased versus economic occupancy.

We begin 2019 with great enthusiasm and look forward to being back on the path of sustained growth for years to come.

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

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

(Operator Instructions)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Jeremy Metz with BMO Capital Markets.

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

Conor, you opened up talking about change in the status quo not being an option. You meant in the ramping shadow supply that's out there. Just wondering how we should think about this from a capital spend perspective? Both in terms of needing to more heavily invest in existing assets to protect or improve positioning, but also attract tenants? And so not just from a development spend with a direct ROI, but base tenant allowances, building spend, the additional capital you might need to spend in this environment?

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

Jeremy, I think, it's a good question. I mean, when you think about what landlords need to do today, we can't sit back. We really have to be engaged with driving traffic and just not rely on the retailers being the ones that -- are the focal point of the experience. So on the spending purposes, you really got to look at -- our costs have been relatively stable over the last few quarters in terms of deal costs, on the specific backfilling that we've been doing. On the redevelopment side, that's where we see real opportunity for growth in the value of our real estate. You've seen now that we've completed our first mixed-use redevelopment, and it was voted best new building in Philly and it's way ahead of our internal expectations. We have a big pipeline of future redevelopment opportunities. When we look at our opportunities within the portfolio, for mixed-use, is pretty significant, but we continue to see the demand be there for our repositioning portfolio.

I think the overwhelming theme when you talk to retailers today is that they're going to be investing in their most productive stores, and we want to invest alongside them. They're going to be remodeling, they're going to be adding significant technology inside the store. And when we look at what we can do from a landlord perspective, we can add amenities as well, whether it's WiFi, whether it's ride-sharing pickups locations, but significant below market leases are, obviously, still a critical advantage to Kimco. And that's where we see we can unlock the value of our real estate through repositioning.

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

Okay. Second for me. Just in terms of the guidance, you obviously have a range here for a reason. So wondering if you can just walk us through what you're baking in to the top and bottom in terms of tenant fallout and disruption? And then how the releasing of Toys and Kmarts all factor into that? And then, not sure, if Ray is on, but maybe a quick update on Albertsons? And what your best case scenario would look like?

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Sounds like you're going beyond that follow-up...

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

Sorry. Let's just stick with the guidance then. How about just the guidance in the tenants?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

So our guidance includes a few things, something that I've already mentioned. But credit loss -- there's 100 basis points of credit loss that's baked into the number. So that gives you -- at the lower end, you would have further bankruptcies, potentially, that would come through. The impact of

Sears and what happens to the rest of the leases there has some impact on the lower end. On the upper end of the guidance, again, if better credit loss comes in, that will be a positive to it. Further lease up and additional rent commencements as we go through the year is another part to the positive side.

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Two other things that also impact the same-site, Jeremy, is that, there's about 35 to 40 basis point impact from the loss of Toys for -- in 2018 and to the 2019 same-site level.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

In addition, again, a key component to the growth is the developments coming online. As I mentioned, there's $16 million to $18 million of incremental NOI that is in the numbers. So depending on the timing of that, speed or slow down for any reason, that has some impact as well within that guidance range.

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

We're giving Jeremy the third question. Jeremy, this is Ray. With regard to Albertsons, I mean, I imagine you saw that a couple of weeks ago, they released their earnings for the third quarter. They had -- they really had improved the business operations, store sales up 2% year-over-year for Albertsons. They're still -- they reaffirmed their $2.65 billion to $2.7 billion EBITDA for the fiscal year, which would be about an 8% increase over last year. They've also paid down $1 billion of debt as of the end of the third quarter and then closed on another $650 million of sale leasebacks. Can use that money to further reduce the debt of the company, so they're doing everything they can. Jim Donald has done a great job in motivating the team, and they really ride the ship. And we're really in very good shape to see what we got to do in the coming year or 2 for the company.

Operator

The next question comes from Ki Bin Kim with SunTrust.

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

Just had some questions regarding your 2019 guidance. So first on the 2% same-site NOI guidance. You mentioned 100 basis points of credit loss. How does that 100 basis points of credit loss compare to previous years of guidance? Second, income tax and other is expected to benefit by $0.01 or $0.02 in 2019 versus the negative $0.01 hit in 2018. So anymore color on that? And last one. In the fourth quarter, you capitalized $2 million more G&A than you did in the third quarter. Half of that, I can see, is tied to just more leasing volume, which is great, but is there any element of G&A that you're capitalizing incrementally more so on in 2019 vs 2018?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Okay. So let me try to take on a piece at a time. In terms of credit loss for prior years, it's run anywhere between 75 and 125 basis points in total. I think if you look for 2018, the credit loss was around 70 basis points. So we came in a little bit better for the year. So again, we feel comfortable at this 100 basis point credit loss level and that kind of takes into account part of the guidance.

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

But to be clear, the 100 basis points is the exact same as previous year. So it has been running a little bit better, but we feel like that's the right number for now to have that as our assumption.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

As it relates to the other category, again, that's a catch-all item for all of our other accounts, including corporate taxes, non-real estate income, interest, dividend income and other non-real estate depreciation and amortization. So that number varies year-to-year. If you went back to 2016, it was a positive number. Last year, it was somewhat of an expense. We do expect higher interest dividend in other investment income from our non-real estate investments as well as you'll see further interest income that comes from our cash balances just because interest on those balances is higher than it has been as interest rates were a little bit higher from the Fed's activities. And we also do expect to have lower tax expense during 2019. During 2018, there were certain deferred tax valuation allowances that we took that won't repeat.

I guess, your last question was on the G&A of just quarter-over-quarter, right. So leasing activity was strong, so you had some internal leasing commissions that were capitalized as well as we do capitalize internal construction folks. So the construction activity on the sites is another component to the G&A capitalization as well as some system development capitalization related to the new ERP system that we're putting in place.

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

But that's in the fourth quarter, how much of that bled through in your thinking for 2019 guidance?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

G&A capitalization will actually be less in 2019, primarily, due to the $12 million that I mentioned for the internal leasing and legal commissions being expensed for the new guidance.

Operator

The next question comes from Greg McGinniss with Scotiabank.

Greg McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Conor, feels like this Sears situation is still in a bit of a flux despite Eddie getting his way, but could you give us your updated expectations on what's baked into the midpoint of 2019 guidance regarding closures? And then what you expect on redevelopment expense? And maybe just some color on the interest you're seeing from retailers in those boxes as well?

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

Well, as Glenn mentioned, we have the low end of the guidance really focused on a liquidation of the actual entity there, but we'll have to wait and see. I mean it's very clear that there are different forces at work there. And I believe it's on Monday when the court is set to meet and decide on the fate. So we'll have to wait and see. We, obviously, have not been sitting back. We've been very proactive in terms of the locations we have remaining, but we don't necessarily have any visibility yet. So as soon as we gain visibility, we'll be able to share it. But again, as I mentioned in my remarks, we're very confident in our platform and being able to create value on those locations.

Greg McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And then, just one more follow-up here. So given the small-shop occupancy has been up ticking up year-after-year, which is nice to see, I'm just curious where you've been seeing the most expense -- most success with small-shop leasing? And whether or not you expect this trend to continue in 2019?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Yea. I mean, we continue to see the growth categories in the health and wellness section, the service-based usage, the hair salons, nails, the specialty fitness is continuing to be a growing category as well as medical. The urgent care facilities, et cetera, continue to rise to the top with -- complemented by SMB as a growing category with all the franchises that continue to expand and do well. So we continue to see that on a go-forward basis. I think the other big component of us exceeding our small shop trend is the retention levels. Our retention levels are significantly higher than they've been in the past, and that's directly attributed to a higher-quality portfolio. When you just look at the velocity of vacates in our small shops year-over-year, it's down almost 30% to 40%. So that's evidence that we are retaining higher-quality tenants for longer and they are renewing, and so we'll continue to see that trend going forward.

Operator

The next question comes from Christine McElroy with Citi.

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

Just following up on some of your comments around project deliveries. You've talked about an incremental $20 million of NOI from development and redevelopment projects in 2019. Can you provide an update and maybe some greater context around those expectations? And I know that the 1.5% to 2.5% same-store range is excluding redevelopment impact, but can you disclose what you expect that, that redevelopment impact to be in your reported range?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Christy, it's Glenn. So the $20 million that we've talked about during the year, as I mentioned on -- in my prepared remarks, the range we're using is $16 million to $18 million. And the reason is that more has come online actually at the end of 2018. So the incremental amount -- the total number is still the same, but the incremental amount is just a little bit less. So the projects are moving along. The lease up has gone very well. So baked into the numbers, again, is the $16 million to $18 million of incremental development NOI coming on from those projects.

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

And then the redevelopment impact on the same-site NOI guidance range will be very muted for this year, similar to last year.

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

Okay. And then just some clarification on Toys and Mattress Firm, so you had talked about the Toys boxes being 80% re-leased. And I think, Dave, you had mentioned a 35 to 40 basis point net impact on same-store. Can you talk about the timing of the commencement? Will any of those commencements hit in 2019 that it would be impactful? And then, just on Mattress Firm, it looks like you closed 11 stores in Q4. The rent contribution went down by $1.4 million. Was that entirely the result of the closures? Or did you provide rent relief on the remaining 51 as well?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

So as it relates to the Toys boxes, we'll start to see the cash flow from the re-leasing accelerate to the back half of this year, so that helps offset some of the total impact on to about 35 basis points of dilution for '19. And with the balance of our boxes that we have -- we have LOI-ed out with a number of tenants. So we feel good about the remaining vacancy that we have. As it relates to Mattress Firm...

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

Yes, so on Mattress Firm, with regard to the stores that continue to operate, on about 30% to 35% of them, there is some rent modification or lease-term modification that we worked out with them, but not on all the sites. The sites that they've had with us, they did reject 8 or 9 of the locations. We actually negotiated on 1 site to have -- to do lease termination because we had a backfill opportunity on that. And then there was another site that -- actually they had a lease expiration that was occurring during the bankruptcy, so the store we expected to close and to get back, but we have -- majority of the stores are operating. It's a company that came out of bankruptcy, basically converting $3.3 billion of debt and being wiped off the balance sheet into equity. So it's a very strong balance sheet for the company going forward. So net-net, we have a much better credit on the 50-odd stores we have with them.

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

Okay. So the rent modifications hit right away whereas the rent loss from the rejected leases, isn't there a delay in that? It doesn't hit until 2020?

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

Well, the interesting thing with the rent loss is that because it's case -- the Mattress Firm case is going to be 100% plan, we'll be getting about a 1-year rent damage claim through all the 10 locations that we've gotten back. So we'll -- so for '19, we'll recover all the money basically.

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Right. So in '20 is when you'll see the impact.

Operator

The next question comes from Samir Khanal with Evercore ISI.

Samir Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

I guess, can you walk us through your sort of sources and uses at this time. It doesn't look like you're generating much sort of free cash flow after the dividend, and you still have plans to spend about $300 million on the kind of redev and the development piece. So some -- and you don't have any sort of targets for dispositions here. So I'm just trying to -- how should we think about the funding aspect of that redevelopment, especially, without any sort of targets for dispositions here? How should we think about that?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Right. So when you think about the development spend and the redevelopment spend, somewhere in this $250 million to $325-ish million range. There will be dispositions, and the dispositions will fund a good portion of that I would say. And then the balance because we do not have any expectations to issue equity nor do we have any expectations to raise any other debt or anything during the year, the balance would come from funding from our revolving credit facility and our cash on hand that's available.

Yes, you'll see a level of dispositions that will fund a good portion of the development and redevelopments.

Operator

The next question comes from Craig Schmidt with Bank of America.

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

I was wondering how many retailers you think may convert to order online pickup stores in your portfolio?

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

Craig, it's Conor. I think, actually, it's going to be a trend that continues that we'll see the majority of them convert to that. You've seen, recently, that Trader Joe's is no longer doing e-commerce delivery of groceries. I think a lot of retailers are figuring out how to drive traffic back into the store and Click & Collect or buy online and pickup in store has become a boost to not only the actual retailer themselves, but to the store traffic. So I think we've seen a lion's share of them starting to implement it. And I think that'll continue as really as the new retail wave evolves. I think the shopping center is well positioned because of the convenience factor to really capture that because typically the shopping center is the closest to your house or the closest to where you work. And so buying online and picking up in store is, ultimately, a very convenient way to get what you need.

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

I mean, they definitely seems to help traffic. Is there also an opportunity to increase the revenue whether you create areas for access to that help order online and pick up in stores?

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

Absolutely. I think when you think of the store reformatting, there's going to be ways where they can, obviously, get the impulse buys, once you get that person inside the store. So there's a lot of data coming out in terms of how much of the incremental consumer spends once you get them in the store. So it's not just what they ordered online, but they always seem to buy something else once they're inside the store. So retailers, I think, will take advantage of that. And then we can take advantage of the increased traffic and make sure we're trying to increase cross shopping as much as possible and take advantage of that increased traffic.

Operator

The next question comes from Caitlin Burrows with Goldman Sachs.

Caitlin Burrows - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Maybe just on the leverage side, so including the joint ventures, now you guys are at 6.3x debt to EBITDA. I guess, how does this compare to your target? And kind of how and when do you expect to get there?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes. So in terms of leverage, I mean, again, we want to get down to around the 5.5x consolidated net debt to EBITDA and then about a turn less when you're on a look-through basis, including the joint ventures and the preferred. So somewhere in that approaching a 6.5x over time. Leverage will stay relatively the same as we go through the year, but you'll start to see leverage coming down as we look into 2020 with more and more EBITDA growth coming at basically the same debt levels. So you'll start to see it coming down into 2020 and beyond.

Caitlin Burrows - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Got it. Okay. And then, maybe just in terms of the 2018 same-store NOI growth having come in better than expectations, I was wondering if you can just talk about some of the positive surprises that you saw at the end of 2018? And whether or not they could continue into this year?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

I think you had some rent commencements that accelerated, which was definitely helpful. And retention of tenants was, obviously, very important to the puzzle and then credit loss was a little bit better as well.

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Caitlin, it's Dave Bujnicki. I'll also add that part of the benefit of the large dispositions we did, we just have a much better and stronger performing portfolio today than we did a year ago.

Operator

The next question is from Michael Mueller with JPMorgan.

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

I was wondering, going to the same-store again, can you just run over the 2.9% last year versus the midpoint of 2% this year. It seems like there is the 30 basis point difference in the credit loss reserve that's part of it, the 1% budget versus 70 bps last year. And then what's driving the other 60 basis point delta again?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Well, again, you have different populations as we sold lots of assets. And we think that our range of 1.5% to 2.5%, as we roll off our budget, is a pretty reasonable place to start for the year. We have to take into account what's happening really at the tenant level. We'll have to see what happens with Kmart and some other. So it's really an initial range based on our original forecast -- our initial forecast, I should say.

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

Okay. And are Kmart and Sears in that credit reserve? Or are you thinking that's separate from that?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

There's a good portion of that, that is in that credit reserve.

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

Okay. And I guess, on the follow-up just something different here. The $275 million to $350 million development, redevelopment investment that's anticipated for '19. How do you see that number trending once you go to the 2020 and then the next few years out?

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

It does start to moderate. I mean, when you look at the pipeline of projects that we have in the supplemental, you'll see that the development pipeline starts to skinny down as those projects really deliver. And what I mentioned in my script is, we'll be looking to backfill with a lot of our redevelopment opportunities, as we think that's the best risk adjusted return for the long term for the company. But we plan to really have it in that $200 million to $300 million range going forward as an annual investment spend that'll deliver significant recurring growth for us in the future.

Operator

The next question comes from Derek Johnston with Deutsche Bank.

Derek Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

On FAD dividend payout ratio, where do you expect this year to shake out? And can you give us an idea of what the target is over the next 2 to 3 years? I know it was a bit elevated in '18 due to all the CapEx, but just trying to get an idea of where you expect it to settle?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes. I think the dividend payout ratio will come down modestly this year a little bit, but again, it's still relatively close to that 100% level. You'll start to see really start improving as we go into 2020 and 2021 as EBITDA really starts to ramp up from the coming online of our -- really our development projects and our redevelopment projects starting to kick in places like Pentagon and The Boulevard on Staten Island. And then, in terms of the target, we want to try and get back down to a high 80s percent dividend payout coverage.

Derek Johnston - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And I guess, as a follow on, how many leases do you have expiring in 2019 that have no remaining options with approximate square footage and mark-to-market if possible?

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Again, our -- most of our anchors, Derek, have pretty sizable mark-to-markets on it. We didn't specifically call out what the mark-to-market is for '19. But again, from what we've done over the last several years, it's somewhere in that 30% plus range. So again -- and depending on what happens with Kmart, it could really be sizable when you look into '19.

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

We can follow up and give you the specific numbers of the leases that are expiring without options. And typically, we've been north of 30% on the mark-to-market when leases come due without any more options.

Operator

The next question comes from Alexander Goldfarb with Sandler O'Neill.

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

So 2 questions. First, just going back to Sears because I think the bankruptcy, the hearing, to determine if Eddie wins or not, is Monday. So if he does win, how does this affect the centers where you have the 13 Sears/Kmarts? How does this affect your plans for those centers? And were these centers potentially on your list for adding to the redevelopment such that as you were looking over the next few years, these would have provided growth. Glenn, may be, helped you get to that sort of mid-80s FAD payout for the dividend? Or were these centers that it doesn't matter either way if Sears stays or goes?

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

You're right that it's set for Monday, so we'll have to see how it unfolds. The 13 are not in our current pipeline for redevelopment, but clearly, some of them lend themselves to future redevelopment. We don't have visibility on which ones we'll be able to recapture. But clearly, as I mentioned earlier, we haven't been sitting back. We've been proactive getting ready to recapture all of them. So we'll have to wait and see in terms of where the visibility is coming from and see what we can recapture. There is a lot of value we believe with our platform that we can create, and we'll see if we can recapture them or not.

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

Okay. And then just overall big picture, are you guys now done with all of the unwinding of all the legacy investments like from going forward as we think about Kimco, this is the portfolio that will be, Glenn, to your point, on funding redevelopment, it's just going to be sort of match funding for dispositions? Or are we -- do you think that possibly, let's say, cap rates hardened or something like that, we may see another big wave of sales from you guys?

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

No. I think you're spot on. When you look at the portfolio today, we feel like we've really done the heavy lifting to transform the portfolio to what we believe is a high-quality, high barrier-to-entry coastal-weighted asset base that we can unlock a lot of value from going forward. We've put a lot of time and effort into getting the portfolio to where we believe the future of retail is headed. That convenience factor that we believe is so critical to the consumer today. And now, we're really excited to showcase what the portfolio can do and how the tremendous amount of redevelopment opportunity in the future as we work to entitle really unlocking the highest and best use from our asset base. So to your point, we believe we'll transform the assets. And now, it's on us to continue to grow going forward.

Operator

The next question comes from Haendel St. Juste with Mizuho.

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Conor, I guess, a question for you on your non-real estate investments. I'm just curious how to think about the longer-term picture for that. Should we expect your income from that -- your other income bucket to continue declining over the next few years?

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

Can you repeat that? It didn't come through, Haendel.

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Sorry about that. A question on how you're thinking longer-term about non-real estate investments -- your non-real estate investments? Curious about how the income from your other income bucket, should we expect that to continue to decline over the next few years?

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

We've always had an opportunistic investment arm at the company that looks at potential retailers that are real estate rich, and the key there is the ones that are real estate rich. And so, I think, when we look at our Albertsons investment and how much real estate they still own on the coasts, we believe long term that, that investment -- and it actually has paid off quite handsomely to date. So we believe that that's a pretty unique opportunity set that we have here at Kimco. Now the population of retailers that actually own a lot of their own real estate has dwindled. So that may limit the opportunities in the future. And we also want to measure how much we have invested at any one point in time. So our focus is really on harvesting Albertsons and making sure that we can redeploy that capital back into the portfolio fund redevelopment, pay down debt and get to our long-term positioning that we really want.

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Okay. That's helpful. Ross, a follow-up, maybe a bit more color on the assets sold in the fourth quarter. Can you maybe share the average occupancy mark-to-market profile for all those assets? And did you notice -- was there any noticeable change in the buyer profile? And then maybe some color on disposition -- on cap rates this year? I know that you guys haven't given discrete disposition guidance, but just curious how you think about cap rates this year versus last year on a like-for-like basis?

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

Sure. I think that the market remains very healthy on the assets that we sold. The buyers are still able to generate and to receive pretty strong debt financing within the markets. Obviously, the 10-year staying below 3% really helped the cash-on-cash returns for our investors, for our buyers of these properties. So the occupancy of the sites that we sold over the course of the year, which is pretty consistent in the fourth quarter, was right around the 93% range. So it gives a little bit of a value-add opportunity for a potential buyer, but relatively stabilized assets for the most part. When you look at the rents of what we sold, it was just under $12, about $11.73 to be exact, the ABR of the sold sites. So again, I think, that the assets that we'll be looking to sell in 2019, we'll really be opportunistic with that set of opportunities for potential buyers. So we can ensure that the ones that we bring to market are timed appropriately for us to maximize value. When we executed this year at the blended 7.6% cap rate, I think, that, generally speaking, that should be more or less in line with expectations for what we sell in '19 depending on that specific population if and when we move forward with certain assets. So I would say that the demand continues to be healthy. We have a higher-quality asset base even within the potential disposition candidates there. So we'll just have to see how the year progresses, but we're very comfortable with the target that we're putting out for the year.

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

There's still a very large disconnect between public and private pricing. I think when you look at the shopping center as a whole, there's trades that happen every day. So it's a very -- the price discovery occurs regularly. And so for us to execute on a $1 billion of dispositions and see that it's really in that 7.6% cap rate range, I feel like we've really executed well on our strategy. And now, we're starting to see pretty significant capital formations for shopping centers from private equity and other owners that see the fundamentals that we've been producing consistently. And so that's really what I think differentiates our sector from others in the retail world is the fundamentals are starting to actually shine and people are starting to notice them.

Operator

The next question is from Brian Hawthorne with RBC.

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

I guess, first one, what is driving the higher development and redevelopment spend? I guess, in your 3Q presentation, you had $250 million that is guided for 2019?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes. Some of it's timing and the spend that was done really during '18. Some of it shifted back into '19, but it's primarily driven by Dania Phase 2, Pentagon, Suburban Phase 3 and The Boulevard. I mean, those are the predominant sites that our -- the capital's earmarked for.

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

And it was -- a lot of it was targeted towards adding Phase 3 of Dania to the supplemental. That's the new project that we added.

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

Okay. And then, I guess, on renewal spreads, it looks like it's kind of been trending lower over the past since kind of 1Q '17. I guess, what's driving that? And then hows renewal spreads trended for the shop space?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Yes. So on the renewals, our trailing 4 quarters has usually been around 7%. This quarter, it was slightly lower just over 5%. We did over 200 renewals this quarter. And there were really 3 that drove it down below that 5%. So if you remove those that would actually bring you back into the trailing 4 around 7%. So it's fairly consistent to what we've seen in the past. And on the shop-space side, shop spaces, small shops are typically closer to market. And you do see upside on renewals and if they exercise the options around that 3% to 4% range, and -- so you'll continue to see that going forward, especially with the higher retention levels.

Operator

The next question comes from Linda Tsai with Barclays.

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

Given the nearly $1 billion in asset sales in 2018, how much of that represented power centers? And has that changed your overall exposure to this format?

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

Yes. It's a good question. We have reduced our exposure to power centers from the dispositions. I would say, just to be clear though, we don't believe that all power centers are created equally, so we do still feel very agnostic between power, grocery depending on location, demographics, density, et cetera. So we did modestly reduce our exposure to power centers. But again, we're still feeling very comfortable with the power centers that we have remaining within the portfolio. In terms of the actual number of power centers that we sold this year, yes, it's approximately 12 to 16 depending on the classification of them, but it was about 16 power centers for, I'd say, off the top of my head, and I could follow up with you with the exact, but it was about 35% to 40% of the asset volume sold was true power centers.

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

And then relative to Gymboree's liquidation, what's your exposure there?

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

We really don't have anything in Gymboree. We have 1 Crazy 8, I think...

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

Right. I think -- right, so it's 1.

Operator

The next question comes from Chris Lucas with Capital One Securities.

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

Just a couple of quick questions. You mentioned on the renewal rates that 3 of them sort of drove the numbers down. Were those market renewals? Or those fixed price renewals?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Sorry. Say that question, again. It was broken off.

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

I'm sorry. So on the renewals, you mentioned that the lease spread was impacted by 3 leases, correct?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Correct.

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

Okay. So on those 3, were they all mark-to-market renewals? Or were there fixed-price options in those renewals that were driving that?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

No. There was one though, the Mattress Firm, which was a slight concession for a shorter period of time. And then the other one was an adjustment to market. Again, keeping them in place while we look at another opportunity to redevelop.

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

Okay. And then just on the same-store NOI guidance for the year, just curious as to whether the pacing we should expect it to ramp towards the back end? Or whether or not it will sort of stay kind of range bound during the course of the year? How you guys think about that?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

I mean, quarter-by-quarter, it always moves around a little bit, but you'll probably see it higher towards the back end of the year, third and fourth quarter should be higher.

Operator

We have a follow-up question from Ki Bin Kim with SunTrust.

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

Just a couple of quick ones. In your 2019 guidance, what are you embedding for lease spreads?

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

For lease spreads, I think, it's pretty consistent from what it -- what happened last year. So I would take our trailing 12 and use that.

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

Okay. And are lease modifications reflected in the lease spreads that you show in the supplemental?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

They do if it extends over a year. So on some of the lease modifications worked over 12 months, those would be included.

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

Okay. And just last one. Just to be clear, there will be some dispositions from Kimco this year, but not in the FFO guidance currently?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

No. I mean, the dispositions are in our guidance number. I mean -- and again, the dispositions are also, as I mentioned, will fund a good portion of our development and redevelopment spend during the year. So there is a level of disposition that is baked into this guidance number.

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

We think disposition is part of a natural asset management function for the company going forward, so -- and that $200 million to $300 million range we think is a natural run rate to continue to constantly evolve our portfolio, focus on where demographic shifts are occurring and continuing to execute that. So we don't build up a future large disposition pipeline.

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

Okay. That's good. Because I think there were some questions from buy siders regarding if there was actually dilution in the FFO guidance or not, but that helps.

Operator

We have a follow-up question from Samir Khanal with Evercore.

Samir Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

Sorry, I got disconnected before. But just wanted to follow up on sort of cap rates. I know the question was asked before, but primarily on sort of grocery anchor centers in sort of secondary and tertiary markets what you're seeing there, especially with some of the traditional grocers that know if they are the anchor, what are sort of the headwinds from e-commerce? I mean, have you seen cap rates widen out in kind of that bucket?

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

Yes, I think that's an accurate statement. We've seen in the core major markets dense infill locations, grocery anchor continues to be very aggressively priced. I mentioned a couple of the examples of ones in the major markets in the West Coast that are sub-5%. You have seen a little bit of widening out of grocery anchor deals in the secondary and tertiary markets to come more in line with some of the other cap rates on power centers and otherwise within those markets. And as we've talked about, there's a pretty significantly changing evolving grocery landscape. So I think that's something that investors are taking a look at and really have to be careful as to the sales per square foot as well as the performance and the financial viability of the specific user. So by way of example, again, we talked about -- a little bit about the 3 sale leaseback properties that we acquired on the West Coast. Those locations, we're doing a blended $775 a square foot in sales. So very attractive opportunities. That's where, I think, investors are becoming much more focused on the performance of the existing grocer as well as their financial viability longer term.

Samir Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

Okay. So if you have a grocer that's doing sort of below $500 a foot in that secondary, tertiary market type bucket, how much do you think those cap rates have expanded, let's say, in the last sort of 6 to 9 months?

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

Yes, 6 to 9 months, I would say pushing it back even in the last 12 months from -- in 2018 over the course of the year, I think you've probably seen a widening of maybe 50 or 75 basis points in those secondary and tertiary markets if the grocery performance is not well above the average.

Operator

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

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Thank you for participating on our call today. I'm available to answer any follow-up questions you may have. I hope you enjoy the rest of the day.

Operator

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