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KIM - Q1 2019 Kimco Realty Corp Earnings Call

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OVERVIEW:

Co. reported FFO as adjusted of $157.4m or $0.37 per diluted share and NAREIT FFO per diluted share of $0.38. Expects 2019 FFO as adjusted per diluted share to be $1.44-1.48 and NAREIT FFO per diluted share to be $1.44-1.48.

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PRESENTATION

Operator

Good day, and welcome to Kimco's First Quarter 2019 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 of 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 First Quarter 2019 Earnings Call. Joining me on the call our Conor Flynn, our Chief Executive Officer; Ross Cooper, President and Chief Investment Officer; Glenn Cohen, Kimco's CFO; Dave Jamieson, our Chief Operating Officer; as well 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 website.

And with that, I'm turning the call over to Conor.

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

Thanks, Dave, and good morning, everyone. Today, I'll briefly discuss the current shopping center environment and how Kimco's strategy is designed to meet today's challenges and create a growth platform going forward. I will then touch on some of our Q1 highlights and describe the remarkable progress we're making on our Signature Series assets. Ross will follow with a review of our Q1 transaction activity and then discuss the current transaction market and our investment outlook. Glenn will close with a discussion of some additional quarterly accomplishments and provide our updated guidance for the year ahead.

In the retail real estate space, we anticipate store optimization plans to continue as underperforming locations will likely not survive the new world order of retail darwinism. At the same time, however, we see strong demand for new stores with particular strength in off-price, beauty, fitness, restaurants, medical and services. We track store openings across the country. And by our count, the number of 2019 openings are over 5,500, more than double the widely reported numbers in the media. We also anticipate that the buy online, pick up in store phenomenon will grow at a significant rate, placing more value on physical locations that can adapt and drive even more profitability.

The ICSC Halo Effect report is clear evidence of how important physical retail is to e-commerce growth. According to the report, opening a physical store has shown a significantly increased web traffic for the retailer in that market. And conversely, web traffic drops off when retailers close stores. We have positioned ourselves to take advantage of and withstand the vicissitudes of the retail real estate environment. Our assets are concentrated in high-quality markets with high barriers to entry and anchored by profitable high-volume stores. These are the locations where retailers want to be and will invest heavily to integrate e-commerce with their physical footprint.

In talking to our retailer partners, we have heard consistently that there is no lack of available retail space on the market but that there is a lack of high-quality retail space. Our quality locations, below-market leases and the diversity of our tenant base give us tremendous flexibility and staying power to navigate the current environment. The new age of retail is evolving rapidly, but we are focused on staying ahead of the curve and finding the right real estate to unlock embedded growth.

Now to the highlights. We are off to a good start this year, with our portfolio producing stronger-than-anticipated growth. Our first quarter same-site NOI increased 3.7%. And for the first time in over 10 years, our occupancy climbed in Q1 by 20 basis points. Higher retention and higher leasing volumes drove the outperformance. New deals with Target, Old Navy, ULTA, Burlington, Ross, Five Below and many others illustrate that our portfolio caters to the successful and growing concepts in the retail world today.

Our team executed on our disposition plan in 2017 and 2018 to address the lowest tranche of the portfolio. Since this drag from the portfolio has been removed, our quality and our growth are starting to shine through. Our priority this year is focused on completing and opening the balance of our Signature Series portfolio. We are reaching the final stages of a multiyear investment program that will start to generate significant cash flow to the portfolio. We are on track to deliver $16 million to $18 million of incremental NOI this year that will drive our EBITDA and FFO, increase our free cash flow and strengthen our dividend coverage ratio.

Some highlights from Q1 include the opening of Lowe's at Mill Station, T.J. Maxx and Hobby Lobby at Dania Pointe and the commencement of the residential ground lease at Dania Pointe Phase II. In addition to this, we are also on schedule to deliver this summer The Witmer, a 440-unit residential tower at our Pentagon Centre, which is across the street for Amazon's planned HQ2 in Arlington, Virginia.

As we keep an eye toward the future, we continue to make substantial progress with our mixed-use platform. To date, we have a total of over 4,300 residential units and 550 hotel keys entitled, under construction or open and operating. With respect to the entitlements, we are creating a multiyear runway of future investment opportunities that we can activate at our discretion. Over the long term, this will change the growth profile and quality of our largest NOI contributors.

Glenn will go into more detail that our balance sheet remains strong, affording us both flexibility to grow and protection to withstand any bumps in the road. In the end, for us, it is all about quality assets and strong leasing. And as Q1 shows, the organic growth of our high-quality portfolio continues to improve. Our team is committed to staying the course and producing solid results.

Finally, I would like to thank Joe Grills, outgoing Chairman of the Executive Compensation Committee and Dick Dooley, outgoing Lead Director and Chairman of the Nominating and Corporate Governance Committee for their long and devoted service to the Board. In addition to their extraordinary leadership, commitment to Kimco and the many contributions that they have made over the years, these 2 gentlemen have always conducted themselves in a thoughtful and professional manner characterized by integrity, civility and honesty. They have set a high and enduring standard for of our Board members and leave behind a lasting legacy.

Ross?

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

Thank you, Conor, and good morning. The first quarter of the year went according to plan with only a modest level of transactions taking place. Following the heavy transformation activity we undertook in 2017 and 2018, we're extremely excited about the current portfolio, and the results for the quarter showcased that the improvement in quality is paying off. We sold 7 assets so far this year with gross proceeds of approximately $102 million and $85 million at Kimco share. We expect the disposition volume to be similar in the second quarter with the majority of our transaction activity completed by the middle of the year. We remain confident in our range of net disposition activity of $200 million to $300 million for the year.

Two highlights for the quarter were the sale of our last fee-owned shopping center asset in Missouri and a property in Palm Beach Gardens, Florida. The Palm Beach Gardens sale is an example of our disciplined approach to capital allocation when evaluating mixed-use redevelopment opportunities. Palm Beach Gardens was a site that was being considered for additional density. And after receiving an offer from an aggressive buyer, we did a deep evaluation of either a self-development scenario, joint venture or ground lease approach. We concluded that the most accretive and best value-creation proposition was an outright sale of the site.

The first quarter asset sales produced a blended sub-7% average cap rate on in-place NOI driven by the sale of our Arboretum Crossing asset, which had a vacant former Toys"R"Us box at the time of closing. Given the execution in Q1 and expectation for pricing on the remainder of the sales in 2019, we anticipate the blended average cap rates for the full year of sales to be in a 7.25% to 7.75% range, an improvement over our prior expectation of 7.5% to 8%.

On the acquisitions front, last quarter we announced the $31 million sale leaseback transaction with Albertsons to acquire the unowned grocery anchors at 3 of our tier 1 West Coast assets. There were no additional acquisitions completed so far this year. While we continue to evaluate opportunities to strategically and accretively enhance the existing portfolio, our main focus is internal growth with the Signature Series development and redevelopment program, which is progressing at a very exciting pace.

I will now pass it off to Glenn for a deeper dive into the financial results.

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

Thanks, Ross, and good morning. Our execution in the first quarter of 2019 generated increased occupancy, strong same-site NOI growth and significant progress on our development and redevelopment projects.

Now before I discuss the details of our first quarter, I want to bring to your attention a change how we report NAREIT FFO. In accordance with the NAREIT FFO definition restatement, we have elected to exclude gains and losses from land sales, marketable securities and preferred equity investment transactions. We will present prior periods to conform to this election. Please keep in mind that these transaction items were previously excluded from FFO as adjusted and therefore has no impact on that calculation.

Now for some color on the first quarter results. NAREIT FFO was $0.38 per diluted share for the first quarter 2019, the same level as Q1 2018. The current quarter includes the receipt of $1 million of insurance proceeds related to our Puerto Rico portfolio that was in excess of the property basis. Last year's first quarter included $4.3 million of gain on forgiveness of debt. Both of these amounts have been excluded from FFO as adjusted. FFO as adjusted or recurring FFO was $157.4 million for the first quarter of 2019 as compared to $157.8 million for the same period last year, resulting in $0.37 per diluted share for each quarter.

Our first quarter results benefited from lower interest expenses of $6.3 million due to the lower debt levels, while G&A expense was higher by $4.1 million primarily from lower internal leasing and legal capitalization resulting from the adoption of the new lease accounting standard, Topic 842. We also had a $1 million decrease in NOI, which is remarkable since we lost $20 million of NOI from the $1 billion of dispositions we completed over the past 15 months. Offsetting the NOI reduction from these sales was $7.7 million of organic growth from the same-site pool and $3.5 million incremental contribution from our development projects.

There were also higher lease termination fees of $3.8 million and higher straight-line rental income and recapture of below-market rents during the quarter. For the rest of 2019, we don't have any additional lease termination fees in our full year guidance and expect the GAAP items of straight-line rent and above- and below-market rents to revert to more normalized levels.

Our transformed operating portfolio continues to produce positive results. Pro rata occupancy increased to 96%, up 20 basis points from year-end as tenant vacates were lower than anticipated. Pro rata anchor occupancy is 97.8%, up 40 basis points from year-end and small shop occupancy is 90.6%, down 50 basis points from year-end due to the seasonal vacates after the holiday season but up 100 basis points over the year-ago quarter. Due to tremendous effort by our team, pro rata leasing spreads continued their strong performance, with first quarter 2019 new leasing spreads increasing 17.4%. Renewals and options also grew by 7.1% with a combined pro rata leasing spreads up overall by 8.9%.

Same-site NOI growth was positive 3.7% for the first quarter 2019 versus a comp of 2.5% last year primarily driven by increases in minimum rent contributing 320 basis points, and other revenues up 80 basis points, which includes 40 basis points from the Mattress Firm leases previously rejected. Offsetting these increases in same-site NOI growth is modestly higher credit loss, negative 10 basis points; and lower operating expense recoveries, negative 20 basis points.

Turning to the balance sheet. We finished the first quarter 2019 with consolidated net debt to recurring EBITDA of 5.7x, improving from the 6x level at year-end. On a look-through basis, including pro rata JV debt and perpetual preferred stock outstanding, the level of 7.2x improvement from the 7.5x at year-end.

Our liquidity position remains very strong with over $2 billion of immediate liquidity available and only $100 million outstanding on our $2.25 billion revolving credit facility. We have no debt maturities for the balance of 2019 and only minimal debt due in 2020. Our weighted average debt maturity profile now stands at 10.2 years, one of the longest in the REIT industry.

Based on the solid first quarter results, we're reaffirming our NAREIT FFO and FFO as adjusted guidance range of $1.44 to $1.48 per diluted share. In addition, we are raising our full year guidance range for same-site NOI growth from 1.5% to 2.5% to a new range of 1.75% to 2.5%.

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

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

(Operator Instructions) And Avi, you could take our first caller.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today is from Rich Hill with Morgan Stanley.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

A really impressive same-store NOI this quarter. So one of the things that we had noticed was that CapEx was -- it looks like it was meaningfully higher than it was in prior quarters and certainly prior to the 4 prior quarters. So I was wondering if you could maybe just give us some guidance about what drove that and how tenants are thinking about CapEx at this point as you have some pretty impressive leasing velocity.

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

Sure. Yes, appreciate it. This is Dave Jamieson. Our CapEx has elevated from prior quarter, but it's also important to note that our rents as well have increased as it relates to the increasing cost as well as our weighted average term of our leases. So when you look at this environment today, we are driving higher rents to offset that additional cost. The cost itself is really driven by the elevation of construction costs, hard cost and labor. That's a trend that we've seen throughout the course of the industry.

But when you tie it all together, our net effective rent is actually improving. It improved over 5% relative to our total base rent. The net effect is heading in the right direction as we had hoped. As we go forward, we continue to see the same situation occur. It's something that we always have to be mindful of, but that's really what the driver's been. But again, as I tie it all back together, net effective rent continues to improve quarter-over-quarter.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

Got it. And so just to be clear, it sounds like most of the CapEx increases are coming from just construction cost and labor costs. Obviously -- that's a trend we've seen across other property types, so I just want to make sure that I understood that correctly.

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

Yes. You got it.

Operator

The next question comes from Samir Khanal with Evercore.

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

You did 3.7% in the quarter for same store, which is certainly strong, but you kept the -- and the guidance went up by 25 basis points, but you're suggesting sort of a bit of deceleration in the coming quarters. Can you walk us through, I guess, the trajectory of growth over the next few quarters? What are kind of the pluses and minuses we need to think about sort of to get you back to the midpoint of guidance?

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

Sure. Samir, it's Glenn. Again, we're very pleased obviously with the first quarter results, where they came in. But it is still early in the year, and we wanted to just take and do a full assessment over the next 90 days as we look at guidance. I can tell you that we actually have stress tested our portfolio as we look at tenants that may have impact through the year. Tenants that are actually on the watch list. And we feel very comfortable with our current guidance range and are comfortable toward the mid- to upper end of that range.

A few things to kind of keep an eye on as we go through the quarter and through the rest of the year really would be the timing of rent commencements and what unexpected tenant fallout could have on same-site NOI growth. So we wanted to just take it slow quarter-by-quarter and try and produce the numbers that we think will be well appreciated by the Street.

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

Samir, I have one more follow-up. It's Dave Bujnicki. I just want to -- also keep in mind, next quarter, we do have a tough comp coming up, we're on a 3.8%.

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

Okay. And I guess as a follow-up along your point, Dave, can you give us a sense as to how much of a dip we could see in the second quarter before seeing a reacceleration kind of in the second half?

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

Again it's Glenn. We're watching it closely. You could see somewhere in that 2% range in the second quarter.

Operator

The next question comes from Jeremy Metz with BMO Capital.

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

Just kind of sticking with that. I was hoping for a little more detail on your expectations for store closings. Con, as you talked about the continuing store optimization that's going on and the expectations that it continues, so wondering what your outlook for the impact is to the portfolio and how that compares to where we started the year.

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

Yes. So far -- obviously, we're early in the year but so far, so good. I mean when you look at our transformed portfolio, we get a sense that the retailers that we have, have strong performing stores with us, and they're reinvesting in those stores to integrate e-commerce. So we haven't really seen the fallout that we've seen in previous years. And we continue to look towards the future of what the portfolio is going to look like and the best retailers and how we can backfill with those retailers.

So when you look at our Toys"R"Us absorption there, we've been very aggressive and have leased all 17 of the 18 boxes that we had and continue to see strong demand across-the-board for well-located retail real estate. And when you look out quarter-by-quarter, we'll continue to monitor retailers that are trying to reposition themselves for the new world of retail. But luckily, we have the right portfolio where we have a waitlist for some of these boxes that we anticipate recapturing.

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

All right. And second one for me just going back to the dispositions. Were those included in your initial same-store pool and your outlook? And therefore, did selling some of that, the vacancy you mentioned, the Toys, vacant Toys box and the repositioning going on I think done at Palm Beach, did that help at all?

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

Yes. I mean the dispositions definitely do have an impact on the same-site. We budgeted for the certain assets, so that was all within expectation. Specific to the Palm Beach Gardens site, that really wouldn't have an impact on same-site. That is -- that was a site that's been held for redevelopment for several years. And our NOI was essentially 0 as we were keeping certain tenants in there in anticipation of the redevelopment. So Palm Beach Gardens didn't have any real impact on either same-site or the cap rate range for this quarter.

Operator

The next question comes from Christine McElroy with Citi.

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

Just with regard to your -- the small change that you made in same-store. Why not change the FFO range as well? I get that the second half is still somewhat uncertain, which you talked about the level of conservatism in there. But are there any other sort of offsets in FFO that we should be thinking about?

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

Not really, Christy. I mean, again, the first quarter had a few things in it that probably won't repeat. As I mentioned in my prepared remarks, we did have an LTA in the first quarter. We don't have any further LTAs in the guidance, and we did recapture a couple of leases that have below-market rents in them that were more outsized than normal, and we don't expect those for the balance of the year. So for right now, we're going to leave our guidance as is. And again, we did bump the lower end of the same-site guidance.

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

Also, the dispositions, Christy, are more front-end loaded to the beginning of the year, so that factors into it.

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

Okay. Got it. And then just, Glenn, following up on the $16 million to $18 million of incremental NOI from redevelopment that you've been talking about, can you just provide a little bit more color or maybe an update on the timing of that coming online? And can you remind us, is that the annual NOI from those projects? Or is that the 2019 impact?

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

That -- the $16 million to $18 million is the incremental 2019 impact. And again, as I mentioned, for the first quarter, the incremental amount was about $3.5 million. So we're on track to achieve that $16 million to $18 million range. And the total for those properties for the year is expected to be somewhere in the $25 million to $28 million range.

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Operator

The next question comes from Greg McGinniss with Scotiabank.

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

Curious, based on operating results so far this year if your internal expectations for bankruptcies or uncollected revenue has fallen since initial guidance? And then looking at the watch list, it's -- or my watch list, it's clear that Kimco and peers have exposure to some, let's call them, less robust tenants with debt maturities in the 2021-2023 time frame. So there's still some time to address, but I'm curious how you're handling those retailers as well.

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

Yes. It's a good question. I think when we look at our guidance so far this year, there has been less closures or less bankruptcies than we anticipated. And that has to do with again some of the strength of the locations that we have. For example, when you look at the Sears-Kmart portfolio that we have, they're only rejecting 2 of the leases with us, which obviously as a quality spectrum shows that these are very high-quality locations with below-market leases. We continue to see that the churn or the vacancy rate is slowing in our portfolio, and we continue to monitor that going forward as you saw our occupancy tick up in Q1 versus historical normal rates. So we'll continue to monitor that closely.

And then when we look at our risk management tools, we really focus on understanding the at-risk tenants in our portfolio, the mark-to-market of those leases and really work on really years ahead of time of when those leases may come to fruition and how we can reposition that real estate. And you continue to see I think our credit scores improve. I think we're the only peer that has the highest investment-grade tenants in our top 10. We continue to improve that. A lot of these legacy retailers are in great locations with below-market leases, which actually is a good thing for us. When you look at the opportunity set going forward, we see that retailers are salivating for these types of locations. And with very little to no new development on the horizon, we think we're in a good position to really capture the who's who of the retailers that are really doing successfully, implementing e-commerce into their physical brick-and-mortar, and we think we are on the right path to unlock that value.

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

Great. And then just as a follow-up here. I recognize there's still a lot of pipeline left to deliver and the expected development investment's going to fall next year and beyond. But how are you thinking about the future of Signature Series development and potential multifamily investment over the next few years?

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

It's a good question. I mean in my prepared remarks, I mentioned about -- that we have over 4,000 apartment units entitled. And we continue to look on our entitlement path of really ways to create value for our shareholders long term. Where our cost of capital sits today, we have taken the path where the lion's share of what we're doing to unlock value is through a ground lease to apartment developers. That allows us to gain the mixed-use component, which drives traffic, it drives sales to our retail, but not necessarily have the capital requirements to fund it.

So we continue to see that as a nice opportunity going forward in the portfolio. We do want to finish off our Signature Series assets and continue to look towards the future and see, when the next opportunity comes around, where our cost of capital is and what's the best way to unlock that value. So you'll see our entitlement work continue, but we will be very selective in terms of what we add to our pipeline going forward.

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*

Just 2 questions. So first, on the -- on your capital plans just given where we are in the cycle and that Albertsons, the monetization of that seems to be sort of maybe someday maybe something will happen. You guys obviously have had a really good run year-to-date, up 20%. You're not quite at consensus maybe, but you're not far. What about issuing equity, one, to deliver? I know you guys don't include preferreds, but with preferreds you guys were on the high side. And then two, that way, it starts to at least reduce the leverage question. And hopefully, you guys continue to grow, which solves the dividend part of the equation as well. So if you could just give thoughts.

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

Yes. Sure thing, Alex. When you look at our capital plan, we have no need to issue equity at -- on our current levels. We continue to see our discount to NAV be significant. And our capital plan lays out a strategy where we can match funds really the proceeds from our dispositions to finish off our Signature Series developments and redevelopments.

You have to remember, the lion's share of the funding is already completed for most of these projects. And so we are -- we have to be patient a little bit to get the incremental NOI because that's really what's going to juice our FFO, our EBITDA and help the dividend coverage towards the end of this year into 2020. And we'll continue to look at that and be a good capital allocator going forward.

We also have no debt maturing really between now and 2021. And so when you look at the levers we have, clearly you mentioned the preferreds, now we do have some of that in our callable on our option, but that's the beauty of preferreds is they're callable at our option. So we'll look at that and see when it's appropriate. And we do want to improve the balance sheet long term, but we are very -- we're in a good position. We think we're well positioned going forward because of our liquidity position and because of our lack of near-term maturities. And so when we look at the trajectory of the Signature Series NOI and where we see the -- all the metrics going forward, we feel very comfortable to be where we are today and feel confident in the future of the company.

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

Okay. And then as far as guidance goes, I mean you responded to several analysts before, but still even if you front-end weight the dispositions, it really doesn't impact your guidance -- or sorry, impact earnings. So is it -- are you guys just being overly cautious just because of what you experienced the past few years in retail? Or is something changing in your watch list that's giving you some trepidation that maybe there will be increased store closings or something of that sort?

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

Alex, it's Glenn. I would just say the same thing, it's early in the year. We've put out guidance based on what our budget was. We're happy with the results of the first quarter, and we'll take it quarter-by-quarter and see how things go. I mean again, we're still dealing and watching things closely with tenants on our watch list, and we are very cautiously optimistic about where things are headed.

Operator

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

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

I guess I'm focusing on the 3 sale leaseback transactions. Is that something you want to do more of? And what is the ultimate aim here?

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

Yes. I mean for those 3 particular assets, we feel very confident that we struck an attractive deal for us at a 6.4% cap rate on West Coast assets where the grocer was doing on average $775 a square foot in sales. We think that there was substantial value creation, particularly when you look at some of the comps on the West Coast in the 5s for similar-type assets.

We'll continue to evaluate those opportunities, both within the Albertsons banners as well as other retailers that are exploring opportunities to sell some of their own real estate. But again, it's going to be very selective. It's going to be strategic. And we want to also ensure that we keep any sort of tenant concentration in mind. And clearly, as I mentioned in the prepared remarks, the main focus for the spend this year is going to be on the internal growth of the Signature Series. So where the opportunity presents itself, we will certainly pursue and transact, but it's going to be pretty limited.

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

Keep in mind, Craig. We own the small shops that were shadow-anchored by the grocery store. And so when you combine the cap rate that we paid for the grocery store and then you combine that with the small shops, we see significant NAV improvement because really when you look at the grocery-anchored comps that are out there today, we feel like we put the site back together and created significant value.

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

And will I be right in assuming that you would be mainly supermarket focused in this process?

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

I think we'll look at opportunistic acquisitions within our key markets. And when you look at what's out there today, grocery-anchored shopping centers are some of the most aggressively priced assets in the market today. And then we'll look at redevelopment opportunities. I think those are the 2 key core competencies that we focus on today. And it's very tough to make the numbers work when you're trading at a discount to NAV.

Operator

The next question comes from Wes Golladay with RBC Capital.

Wesley Golladay - *RBC Capital Markets, LLC, Research Division - Associate*

I want to go back to Mid-Atlantic call we did late last year. You had highlighted 6 projects that could start over the next 1 to 3 years. And in this call you mentioned you may ground lease these projects, but will any of them start commencement of construction the next year or so?

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

Again, it's at our option. We have secured entitlements at a number of those projects. And once we get to the point where we're ready to make a decision, we'll go through our decision tree and see where our cost of capital is. We've always talked about the opportunity set and say do we self-develop, do we contribute the land into a joint venture, do we ground lease or do we sell an asset. And so again, because of the opportunity within the portfolio and the immense entitlements that we've already secured, we feel like we're on the right path to really create a lot of value for our shareholders. And then each and every opportunity will be a unique decision because no two sites are alike, and we really have to weigh our cost of capital and where we want to put our capital to work. And so it really will depend on the individual sites.

Wesley Golladay - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And then looking outside of your -- the tenants you disclosed, the top 50 or so, how are the credit trends for the other tenants?

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

Credit trends are continuing to improve. I mean when you look at some of the retailers that we have, it's really the best-in-class of retail today. It's amazing to think how the credit has evolved over the years, it's clear where the -- what's working today is service and convenience. And when you look at what we provide to our shopper base, we really take advantage of that. We do think that there is going to be some opportunity for PetSmart to improve their credit. Obviously, you saw that they filed for -- to take Chewy public. Now it will all depend on what they do with the proceeds and how they use that potentially to pay down debt of the parent. But we are excited about some of the retailers that have improved their credit quality and continued to want to expand with us.

Operator

The next question comes from Derek Johnston with Deutsche Bank.

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

It comes up every few quarters, just any updates you can share on your thinking with Albertsons, especially with the recent management change there.

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

It's Ray Edwards here. I think -- I'm not sure you saw, they had their year-end financials reported last year, and the company is on track with their goals. They had a couple of major goals for the past year, which they met. One was to have $2.7-plus billion of EBITDA, about $2.74 billion. They also, through the sale leaseback program, reduced their debt on the balance sheet by over $1 billion.

The last part of the program and it was announced at the earnings call was the appointment of new CEO to take the company to the next step. And I think the company is going in the right direction, doing all the right things. Listen, I think if you look at what we've done with Albertsons over the last few years especially, a lot of other private equity firms would have taken that sale leaseback money and made a distribution to the equity and hurt the company. And we're really focused on improving this company, bringing it to the best shape it can be. That way, at the right time, when the equity markets are there, we can achieve the best value for everyone.

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

And then the entitlement process had come up a little bit. Can you just talk about any changes that you might be seeing there in terms of the process or the amounts of time to get approvals for larger developments or even for backfill opportunities.

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

I think entitlement is always unique to the municipality that you're dealing with. I think the nice part about Kimco is that we're long-term holders, and we forge these partnerships with these municipalities knowing that we are going to be here for the long term. Most developers secure entitlements and then flip it the next day. And so we take a very different approach with these municipalities, knowing that we are going to be here for the long haul and forge partnerships and making sure that they feel comfortable with our approach. And we have seen success recently with a number of our projects, and we'll continue to focus on the portfolio of the future. And we feel really that we're just scratching the surface, we in the first inning of our entitlement process. And it's always amazing to think that in a short period of time, we've already secured over 4,000 apartment units.

Operator

The next question comes from Michael Mueller with JPMorgan.

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

I guess the two questions are, one, can you talk a little bit about resi leasing trends at the recent projects? And then with shop occupancy over 90%, I think it's 90.6%, how much more room do you have to move that up?

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

Yes. So on the residential side with Lincoln Square, that's our project in Center City, as you could see -- in our supp this quarter, it was up substantially. It went on from 38% to 55%, 177 units leased as of the end of this last quarter. And we're just moving into the high season now. So we're expecting to see that trend accelerate through the spring and summer as new -- people are moving into the city, looking for new jobs and also the university side. So we'll expect to see an acceleration through the balance of this year.

As it relates to -- sorry, the small -- yes, small shop side, what we saw was our typical seasonal turnover. Now the turnover here was about 50 basis points down from prior quarter. We had a number of tenants that extended through holdover, through the holiday season and into January. So we actually had, I'd say slightly better than what we'd originally assumed. As a result the Q1 and the small shop side though continues to be very, very strong. Health and wellness is very popular. Food and beverage obviously is strong. And we expect to see that through balance of the year.

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

Okay. What would you consider to be full in terms of small shop occupancy? Is it 92%, somewhere in there?

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

Previous, our all-time high was 90%, and we eclipsed that by hitting over 91% last year. So obviously, we're trending into new territory here. We think we can push northwards of those numbers. So we'll have to stay tuned and see how hard we can push it. Obviously, we see the upside in the portfolio in the small shop space, but we also have a lot of momentum building on the remaining boxes in the anchor space. So it's nice to see that we have a really dominant portfolio that's really starting to trend in the right direction.

Operator

The next question comes from Linda Tsai with Barclays.

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

What drove the spike in higher above and market below -- sorry, above- and below-market revenues?

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

Sure. It's Glenn. So we had 2 leases that we recaptured. One was a grocery tenant and one was a JCPenney. One of the boxes is already leased. They come from again the 141 analysis that's done when you acquire the assets. Both of these leases were significantly below market. And when we recaptured the box, you take the below-market rent into income. So the total for those two was around $5 million.

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

And so you would expect that to kind of normalize in the upcoming quarters for the remainder of the year.

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

Correct. When we look in total at -- like our straight-line rent and our above- and below-market rents, those two categories together, on a normalized basis, they are around the total of about $7 million to $8 million a quarter.

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

And then in terms of the decline in lower disposition cap rates, do you think that's more a function of the composition of the assets you're selling or a function of improving cap rates across-the-board for the markets you're selling in?

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

Yes. I think it's a combination of both of those factors. And there's a few other things that I look at when evaluating our disposition program and the success that we've had thus far. I think first and foremost is clearly the improved portfolio. And when you look at the quality of even the tier 2 assets that we're selling, they're much improved compared to years past. So the subset of assets in the pool is much better.

The limited volume that we're doing allows us to be more opportunistic, which the -- with the assets that we're selling. So Palm Beach Gardens was an example that I gave in the prepared remarks where that was one that wasn't necessarily expected for Q1 this year, but we took advantage of an opportunity and an offer and struck with that one. The other one that was mentioned in the transaction release was Arboretum in Austin, which is a good market. It's a solid asset, but it was one where a buyer came along that had a vision for the site that included a redevelopment of the asset that the price that they offered was well beyond what we felt that we could create in terms of a risk-adjusted return and ultimately decided that selling it was the best course of action.

I think also when you look at capital formations in retail, we've had limited supply I think compared to 2017 and '18 where more of our peers and ourselves had much bigger volumes of dispositions. So the limited amount of supply in the market has helped keep pricing in check. And finally, I would say that, that interest rates, clearly remaining low in our favor, have helped our buyers make stronger offers, and that debt continues to be readily available for our buyer. So I think all of those factors have really contributed to our ability to push pricing and have strong execution on the dispo program.

Operator

(Operator Instructions) 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*

I wanted to follow up on the last question, Linda's question. Understanding that the heavy lifting on the disposition side is behind you but given the stronger pricing demand and lower rates you just outlined, Ross, I'm curious how likely is it that we could see Kimco be a bit more aggressive in selling assets this year? Perhaps not close to the level of last year obviously but just curious how the improved demand and pricing environment may play a role into your thinking on dispositions?

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

Yes. We're certainly pleased with the demand and the execution. But we're very focused on staying within the $200 million to $300 million that we've outlined. So we have the capital plan in place that really puts us in a position over the next few years of where we want to be to fund all of our obligations on the development in Signature Series and to continue to focus on balance sheet. So while the market may change for the better on the dispositions over the course of the year, we're going to stay on track with what we've outlined.

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

Yes. I think the other thing I'd add is if you look at how the portfolios really transformed, Conor made the point about how it really started to shine, with a 2.9% same-site NOI growth last year. We're off to a really strong start this year. The portfolio is producing the things that we would expect it to produce. So when we were going through the disposition analysis, we were really looking at where risk was and where we saw downside risk. And that's why we wanted to move out of those markets and those assets. The portfolio is very, very strong today, and it's producing levels that we think are really consistent and long-term growth levers.

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

Appreciate that. And Glenn, while I have you, I wanted to ask, maybe to clarify an accounting question for you. I wanted to clarify specifically how Kimco treats lease termination fees versus the rent that's lost when the tenant leaves. So if the tenant leaves and pay the termination fee, that termination fee not counted in same-store NOI but you keep booking the rent as if the tenant was still there until the end of the lease. For instance, Mattress Firm. If they pay a termination fee in the first quarter of the year, but their lease was scheduled to expire in the fourth quarter of that year, would you continue to book the rent through fourth quarter as a noncash add-back?

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

No. Lease termination fees have -- are not in same-site NOI and have never been in same-site NOI. The Mattress Firm was a unique situation where you had a bankruptcy settlement at 100 cents on the dollar and quite candidly, it's a relatively small number. The total number thus was under $900,000. It makes up 10 basis points for the year. But no, lease terminations have never been in our numbers.

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

And when a tenant falls out, they're out. We don't have them continuing in the same-site NOI number.

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

Right.

Operator

Our next question comes from Vince Tibone with Green Street Advisors.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

Just one quick question for me. You mentioned only 2 of your Kmart leases have been rejected. Do you expect the remaining locations to remain open? And what will your exposure be to Kmart after all anticipated rejections?

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

Yes. This is Dave. So right now we actually have 2 of the leases that are being assumed are dark and paying, and they are significantly below market, and they continue to pay rent on those. So -- but beyond that, all the other ones are open an operating and continue to perform. So we're prepared for whatever events may unfold in the future, but as we stand today, that's where it is.

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

Dave, the exposure. It's now 45 basis points.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

Got it. Okay. So that means you -- roughly 15 to 20 basis points of NOI came offline with the rejections. Is that fair?

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

That's on a full year basis.

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

Full year basis.

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

On a full year basis, yes.

Operator

The next question comes from Chris Lucas of Capital One.

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

I just want to make sure I understand, on the 2 rejected leases, you said they were assumed, so there's no NOI loss there to the company, correct?

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

No. You got to separate it into 2 categories. There's 2 leases that were rejected, and so they have now since come back to us in which we have LOIs in process for those two. Of the pool that was assumed, there are 2 leases that are currently dark and paying.

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

Okay. So let me just go back. I really didn't want to spend time on this, but just let me make sure I understand. Of the stores that you started the year with...

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

Chris, to help you out. We started the year with 13 of them, of which 4 were on the initial closure list that went from the dark and paying. Two of those were assumed, 2 were rejected.

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

Got it. I guess just my question really wanted to focus on the same-store NOI guidance. I think for the initial guidance, you'd provided 100 basis points of reserve was sort of your budget. I guess just curious as to how much of that 100 basis points was eaten in the first quarter. And probably more broadly, as we think about the rest of the year on same-store NOI, is the bigger factor in terms of the range and where this outcome might be more related to rent commencement towards the back end rather than the bad debt or lost revenue from tenant fallout? I'm just trying to understand sort of where the -- maybe the disconnect is in my mind between the kind of -- where performance is today and where the outcome might be for guidance?

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

Right. You're correct. You're correct that our credit loss in our forecast is 100 basis points for the year. For the first quarter, we used about 57 basis points, so we're a little ahead in terms of our budget on credit loss. That's helpful as we go through the year. The guidance range, whether it be the high end or the low end, it's a combination of the things that you mentioned. It's when rent commencements start because we do same-site NOI on a cash basis. So we have this 230 basis point spread between leased and economic occupancy. It's really the timing of when those come online. In our forecast, we expect that around 25% of that spread would come online during the year. So again, rent commencements are important. We budget some level of tenant fallout. If there's a large amount of additional tenant fallout that's not in there, that would have an impact on it. But those are really the drivers. The credit loss, we still remain very comfortable with.

Operator

The next question comes from Ki Bin Kim with SunTrust.

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

Just bigger picture, any notable trends in rent relief, how much rent relief you're giving tenants, the number of tenants or some type of preemptive adjustment to leases that you're making versus like past couple of years.

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

No. There really hasn't been a change in the dynamic of the discussion. It's all driven by supply/demand. Our higher-quality portfolio is pushing the demand side for retail tenants wanting to get into the markets and into our centers. So we've seen this as an opportunity. I think it's reflective in the rents that we're achieving and the extended terms. So that's what we've been seeing. Again, it's always case by case. And so you have to field it as it comes, but there hasn't been any material change in terms of that dialogue.

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

Okay. And sticking with the same theme, I know that's going to be case by case and asset by asset, but what's the risk that if I'm a good retailer and I realize that I am the draw to the center and why the center exists but at the same time the weaker tenants are getting 35% rent relief, in some cases, and I'm paying much more. What's the risk that I come back to you guys and say, you know what, why should we be paying much more than some other -- more troubled of tenants, especially if I'm the draw to the center?

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

I think you really have to look at the drivers of traffic into our sites. And luckily, where we sit today with our transformed portfolio, the supply and demand is in our favor. And so there are more high-quality tenants driving traffic that want to be in our locations. And the legacy tenants that have not evolved with the new world of retail, those are the ones that we can't wait to recapture and reposition with better credit and better grip, better quality tenants. We have very high occupancy. When you look at our -- both our anchors and our small shops and you look at our mark-to-market opportunities, typically, there aren't relocation opportunities within these high target markets where they can get a better economic deal versus what they're paying for that.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to David Bujnicki. Please go ahead.

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

Thank you for participating in our call today. I'm available to answer any follow-up questions you may have. And 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.
