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KIM - Q2 2019 Kimco Realty Corp Earnings Call

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OVERVIEW:

Co. reported 2Q19 adjusted FFO or recurring FFO of $150.2m or $0.36 per diluted share. Expects 2019 NAREIT FFO and FFO as adjusted diluted per share to be $1.44-1.48.

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PRESENTATION

Operator

Good day, and welcome to Kimco's Second Quarter 2019 Earnings Conference Call and Webcast. (Operator Instructions) Please note, today's event is being recorded.

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

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

Good morning, and thank you for joining Kimco's Second Quarter 2019 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 well as other members of our executive team that are present and available to answer questions during the call.

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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.

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

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

Thanks, Dave, and good morning, everyone. With the release of our second quarter results, it's clear that our 2020 Vision is becoming a reality as we continue to execute and create long-term value for our shareholders. We made solid progress on our portfolio leasing as well as our Signature Series platform, positioning us to drive FFO and EBITDA growth, reduce leverage and improve our dividend coverage.

We also have the benefit of balance sheet flexibility and liquidity with no significant debt maturities coming due until 2021. Our team is committed to achieving our goals of putting us in a position of strength as new opportunities emerge.

Now for some highlights and some observations. The progress on our Signature Series is more and more visible as our renderings turn into realities. Just this month, The Witmer, Kimco's residential tower, and our mixed-use Pentagon Centre project, secured its temporary certificate of occupancy. Pre-leasing activity has exceeded our expectations as we now have leases for 46% of the units with tenants moving in ahead of schedule.

We're benefiting from the property's adjacent location to the future Amazon National Landing headquarters, a project that is still several years away, but is already driving a significant increase in both residential and retail demand. It's exciting to see this first phase of our Pentagon Centre redevelopment project come to life, and we're equally excited about the future phases still to come.

Going forward, the majority of our capital allocation will be on redevelopment, including selective mixed-use opportunities where we see better risk-adjusted returns. Currently, we have over 4,000 apartment units entitled and see many more opportunities to expand this across our portfolio as we seek out the highest and best use of our real estate. Just this quarter, we achieved additional entitlement approvals for 350 apartments at our Boca Raton asset, where we've executed a ground lease with a well-capitalized local multifamily developer.

As for our operating portfolio, leasing volume remains robust as our portfolio and our leasing team continue to shine. Overall shopping center demand remains strong for the right real estate.

New leasing spreads came in this quarter at 37%, and combined spreads were 7.9%. We believe Kimco is at the hard corner of where value meets convenience, which as Milton likes to say, is the sweet spot of retail real estate.

We're seeing continued demand as our occupancy level matched its record high of 96.2% with a healthy level of interest for potential spaces we may recapture. Given the continued strength of our portfolio, we're comfortable raising our same-site NOI range for the year.

Recognizing that retail continues to evolve in a rapid pace, we continue to position our portfolio in dense markets and key growth MSAs where we see the most favorable supply and demand dynamic and redevelopment potential. In addition, as buy online pick up in store trend continues, more emphasis is being placed on the physical store as retailers realize their tremendous value as fulfillment hubs for their digital business.

Target, for example, indicated on their most recent earnings call that store fulfillment is more than 40% cheaper than fulfilling orders from warehouses, and their in-store sales per square foot have grown at a rate of 4% per year. It's further evidence that brick-and-mortar can support incremental growth from online business without hurting in-store sales. While Target, along with Home Depot, are ahead of the pack in their seamless integration of e-commerce with bricks-and-mortar, the path is moving in the right direction.

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E-retailers across the spectrum are partnering with brick-and-mortar retailers like Kohl's and Target. They are leveraging these locations to ease returns, which in turn is driving up foot traffic. While some retailers will be unable to pivot and embrace the change, quality real estate will allow the nimble retailers to adapt to the new normal and find the right merchandising mix to drive traffic at all points of the day.

While we've discussed this before, we have many unique attributes that support our proven approach. Beyond the quality of our locations and our team, we have many below-market leases, great tenant diversity and a proven ability to reinvest and transform our business, as we have done over the last 5 decades.

At Kimco, our focus is to look forward and anticipate the future of retail and be one of the leaders in providing the right real estate. I would like to thank our team for working tirelessly in a challenging environment. This group never ceases to amaze me for what they can accomplish. The greater the challenge, the more they rise to the occasion.

Finally, I'm proud that Kimco ranks at the top of all retail for both social and environmental progress in the ESG rankings by ISS, and through our recent inclusion in the FTSE4Good Index Series. This is further evidence of a culture that not only wants to be the best in its sector, it also wants to do things the right way for our people, our shareholders and the next generation of stakeholders in our efforts to create long-term sustained value.

Ross?

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

Thank you, Conor, and good morning.

We continued our modest level of transactions in the second quarter, selling 3 shopping centers for a total gross price of $103.7 million with $65.8 million of Kimco's share. Subsequent to quarter end, we sold another 2 joint venture assets with a gross value of $43.6 million with Kimco's share being approximately $6.5 million.

Given the level of dispositions completed so far this year as well as the anticipated closings in the back half of the year, we are comfortable at the high end of the dispositions range of $200 million to $300 million.

Our strategy has been paying off as the core portfolio continues to shine and provide stability and upside for the company. Notwithstanding this success, we will keep with the strategy of being active asset managers of our portfolio. Where we envision risk or downside to a property or where we believe we have maxed out value for that center, we have moved them to the market and out of the portfolio.

Our recent transaction activity demonstrates that demand for our assets remains very healthy, of particular note with the level of interest in our Latham, New York asset. Located in upstate New York and with a deal price north of $73 million, the solid quality and depth of the bitter pool reinforces our view that the marketplace -- the market places significant value on open-air shopping centers.

Moreover, our buyer was able to obtain attractive financing, which continues to be readily available for our product type. With the 10-year treasury rates approximately 120 basis points below the 52-week high, borrowing costs remained favorable for the levered buyer.

As it relates to core market institutional quality assets, demand outweighs supply in the marketplace, and pricing reflects this. Recent transactions in Northern California and Texas have traded at sub-5% cap rates. A significantly larger wholesale club-anchored center in Palm Beach, Florida as well as a recent grocery-anchored portfolio priced at just under $500 million in the Mid-Atlantic region, both recently traded in the 5% cap rate range. While we have seen many examples of single-asset sales at very low cap rates, it is encouraging to see a larger-size portfolio also pricing very aggressively.

While we continue to evaluate acquisition opportunities, we did not acquire any assets in the second quarter and do not anticipate buying any properties in the current quarter. Given the aggressive landscape for high-quality core market assets, we continue to see our best risk-adjusted

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return in the reinvestment in our best assets. This includes repositioning and strengthening the retail while also adding mixed-use densification where appropriate.

Overall, the progress we're making has been positive and very exciting for our company as we continue to hit new goals and milestones for the portfolio and the Signature Series assets. I will now pass it off to Glenn for a look into the financial results for the quarter.

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

Thanks, Ross, and good morning. We are pleased to report another quarter of solid performance. Our portfolio operating metrics of occupancy, leasing spreads and same-site NOI growth all generated positive results. The cash flows from our Signature Series development projects are ramping up and will continue to be significant contributors to our growth as they reach stabilization over the next 24 months.

Now for some details of the second quarter results. As a reminder, as a result of the NAREIT FFO definition clarification, we no longer include gains and losses from land sales, marketable securities and preferred equity investment in NAREIT FFO. We are presenting prior periods to conform to the selection. These transaction items were previously excluded from FFO as adjusted and therefore have no impact on that calculation.

NAREIT FFO was $151.2 million or $0.36 per diluted share for the second quarter 2019 as compared to $158.6 million or $0.38 per diluted share in the second quarter last year. Included in the second quarter 2019 NAREIT FFO, but excluded from FFO as adjusted, is $1 million of property insurance proceeds related to claims from our Puerto Rico portfolio associated with Hurricane Maria. Included in second quarter 2018 NAREIT FFO, but excluded from FFO as adjusted, was $2.8 million primarily from an equity distribution above our basis.

FFO as adjusted or recurring FFO was $150.2 million or $0.36 per diluted share for the second quarter 2019 as compared to $155.7 million or $0.37 per diluted share for the same period last year. Our results include a decrease in NOI of $10.9 million compared to the same quarter last year primarily due to the significant level of dispositions during 2018.

This impact from the dispositions was $16.1 million, which was partially offset by same-site NOI growth of $5.2 million and incremental NOI from our development projects of $3.4 million. FFO also benefited from lower interest expense attributable to lower debt levels and lower non-real estate-related amortization as compared to last year's second quarter.

For the 2019 6-month period, NAREIT FFO was $0.74 per diluted share and included $2 million of transaction income items not included in FFO as adjusted. This compares to $0.76 per diluted share for the same period last year, which includes $6.4 million of transactional income items not included in FFO as adjusted.

FFO as adjusted for the 2019 6-month period was $307.6 million or $0.73 per diluted share compared to $313.5 million or $0.74 per diluted share for the 6-month period last year. Our 6-month results include a reduction in NOI of $12 million. This includes dispositions, which reduced NOI by $36.2 million, partially offset by same-site NOI growth of $13.3 million, incremental NOI contribution of $6.9 million from our development projects coming online and higher lease termination fees of $4.3 million.

FFO was also impacted by the adoption of the new lease accounting standard, Topic 842, which requires the expensing of internal leasing and legal costs which were previously capitalized. Included in G&A for the 2019 6-month period year is $5.7 million of previously capitalized costs compared to the same period last year.

FFO for the 6 months benefited from lower interest expense of $9.3 million versus the comparable period last year due to lower debt levels.

There is no doubt that our efforts to transform the portfolio are proving effective. Our high-quality operating portfolio is generating strong recurring results. Pro rata occupancy increased to 96.2%, up 20 basis points from last quarter and from a year ago. The improvement is primarily attributable to positive net absorption from the strong leasing activity during the quarter. We signed 324 leases totaling 1.6 million square feet at a weighted average base rent of $18.11 during the second quarter.

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Pro-rata occupancy now stands at 98.2%. And pro-rata small shop occupancy is 90.5%, up 10 basis points and 30 basis points, respectively, compared to a year ago.

Same-site NOI growth was positive 2.5% for the second quarter 2019 versus a comp of 3.9%, including 10 basis points from redevelopments last year. The increase was driven by minimum rent increases, which contributed 310 basis points, and percentage rents and other revenues adding 10 basis points. This growth was offset by lower CAM and real estate tax recoveries of 70 basis points.

For the 2019 6-month period, same-site NOI growth was positive 3.2% versus a comp of 3.2% last year. Our spread between same-site leased occupancy and economic occupancy increased 40 basis points to 270 basis points from last quarter based on the active leasing volume completed.

From a balance sheet perspective, we have no consolidated debt maturing in 2019 and only $102 million of mortgage debt maturing in 2020. We have 1 joint venture mortgage totaling $27 million maturing in the third quarter 2019 and have an executed term sheet to refinance this mortgage. Our weighted average debt maturity profile is now just under 10 years, and our liquidity position is in excellent shape with over $2.2 billion of immediate liquidity.

Based on our first half performance and expectations for the remainder of the year, we are reaffirming our NAREIT FFO and FFO as adjusted diluted per share guidance range of $1.44 to $1.48. In addition, we are raising our full year guidance range for same-site NOI growth from 1.75% to 2.5% to an increased range of 2% to 2.7%. We remain on track to successfully achieve our 2019 goals, notwithstanding the impact of over $1 billion of dispositions in noncore assets over the past 18 months and also the lease accounting change.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Christy McElroy with Citi.

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

With the stock price performance what it's been this year, what are your current views on where your stock trades today on potentially using equity issuance as a tool to raise capital to further shore up the balance sheet and fund the development pipeline?

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

Christy, yes, we have been pleased with the stock price performance so far this year, but we still trade at a discount to NAV. We've been looking at that carefully as we go forward and think we have some major milestones to hit this year to really execute on the 2020 Vision. We have the funding in place from our dispositions for our redevelopment and development pipeline this year and no real debt maturities. So we continue to think that as we execute, we'll be rewarded, and hopefully our share price continues to trade closer to and hopefully above NAV. There is still a pretty significant disconnect between where we trade and where assets are trading in the private market today.

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

Okay. And then just on re-leasing spreads in the second quarter, the spread on renewals and options was lighter at 4% versus the trailing 12-month pace, which has been over 6%. Did it have anything to do with the mix of options, exercises in the quarter? Or what sort of drove that?

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

Yes. Christy, this is Dave Jamieson. Great question. This quarter, actually, we had the highest number of small shop renewals when you compare this quarter versus the trailing 8, which had a -- which in turn had an impact on the overall spreads itself. The reason for that is small shops typically are slightly shorter in term. They do have annual increases, so they typically operate closer to market. So when they do come up for renewal, you tend to see that spread being slightly less than what an anchor box would be when you look at our new lease anchor spreads as being significantly higher.

Operator

And the next question comes from Craig Schmidt with Bank of America Merrill Lynch.

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

Last quarter, you had mentioned that you were on track to deliver $16 million to $18 million incremental NOI. I wonder, are you -- is that holding or has that increased or decreased?

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

That's correct, Craig. We still are on track to deliver $16 million to $18 million of incremental NOI. We're comfortable with that range. And as you've seen our projects, and you've been on site on a few, we continue to be enthusiastic that the Signature Series pipeline is really delivering.

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

And then just on the buy online, pick up in store, how many retailers can be involved in that in terms of one shopping center?

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

I think it can be significant. I mean, we're in the early days of the retailers implementing it. Some of the larger -- the first movers are adapting quicker. But when you look at what's happening with e-tailers coming in and partnering with physical brick-and-mortar retailers, I think there's a lot that can happen where the last-mile distribution hub becomes the shopping center. And when you think about all the different types of retailers that sit in the shopping center today, it really lends itself for being that most convenient point of either pickup or delivery. So we're watching it closely. We continue to think that that's what's going to work in the long term for retail and have been reinvesting in those assets.

Operator

And the next question comes from Jeremy Metz with Bank of America -- BMO, rather.

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

You've obviously had a good start to the year. You're running ahead of your initial expectations on the core, so you raised the same-store here for the second straight quarter. I was just wondering if you could comment on some of the drivers between hitting that high and low end. And in that, what are you baking in for Dress Barn in terms of the timing there, what sort of impact that can have?

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

So in terms of Dress Barn, there's really nothing that's baked in into the 2019 number. Their plan right now is to operate the stores and pay rent through the end of the year, so there's no real impact to that. In terms of the highs and lows, again, we are continuing to watch and be careful about what's happening in the retail environment. So again, watching where the impact of tenants, and any further fallout would hit the low end of the range. Again, the leased-up and the continued rent commencements coming online helps us towards the higher end of that range.

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

All right. And I guess I just want to go back to Dress Barn. If -- when they do stop naming, what sort of impact do you think? And what is the mark-to-market there? What would be the impact, I guess, if they stop at year-end? I mean, how impactful would this be to next year?

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

So on an annualized basis, the Dress Barn impact on ABR is about 16 basis points. It would have an impact on small shop occupancy. It could be up to 42 basis points if that's something that we want to be mindful of. That said, what we're seeing is great opportunities already with the backfills. And so what this does is it always gives us an opportunity to pre-lease these boxes prior to us recapturing them. And knowing that this has been an event that's been forthcoming for some time, we had a fairly substantial runway in terms of managing the fallout and then pre-leasing. So I think when we come towards the end of the year and into 2020, we should be in pretty good shape with new leases in place.

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

Jeremy, it's 13 locations, 16 basis points, so we feel pretty comfortable with being able to pre-lease some of those before the end of the year and hit the ground running.

Operator

And the next question comes from Derek Johnston with Deutsche Bank.

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

Similarly, can we get an update on Forever 21 and what is going on there and the size of the boxes that you have in general?

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

Yes, sure. Forever 21, we had very limited impact exposure at Forever 21. We have 1 out in California, and then we do have a lease that we did sign with Forever 21 at Dania Pointe, I think, back in 2017. What we're seeing thus far is actually what we have in place, especially the one at Dania is the position that they probably want to be in going smaller in box size in the open air environment, lifestyle environment, which could be advantageous. As it relates to that, in our conversations with them, they're actually fully under construction and anticipate opening in the back half of this year. So nothing's changed there. The one we have out in California is one that's actually expiring and with a significant below-market opportunity. So we're actually very enthusiastic about getting that one back when that lease rolls.

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

All right thank you. And how do you guys think about balancing AFFO payout ratio really with the attractive value creation initiatives in front of you? Specifically Phase 2 at Pentagon Centre, I mean, is there any -- so I think Christy talked about the equity. I mean, is there any appetite to

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possibly increase leverage here a bit, maybe adjust economics with partners or any other unique funding methods, Albertsons or such being contemplated to kind of push these projects forward in this rate environment?

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

I think when you look at our opportunities going forward, you're right, they're numerous. And what we've elected to do for our shareholders is to entitle as many projects as possible. I think that really starts to -- the process of unlocking the potential of the asset. And then we look at each asset individually about how do we fund it and how do we look at the economics, the supply and demand and where our cost of capital sits before we hit the go button.

As I mentioned in my remarks, we are taking the approach of using ground leases for a number of our multifamily opportunities. That allows us to get the benefit of having residents live on-site to get a cap rate compression of that in a mixed-use component to the entire NOI stream. And we're going to continue to monitor where we trade versus our NAV. And we do have funding sources from our dispositions that are matching up with our needs. So right now, we feel like we have a very comfortable position. We have been talking to our partners about opportunities in mixed-use, and there's no lack of capital for multifamily development right now. So that is something that we've seen and we continue to monitor to see what's the best use of our funds as well as matching up with the right partners.

Operator

And the next question comes 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*

I wanted to come back to maybe the 2020 Vision and specifically the ramp from the new properties that are coming online. You've made some really good progress in headline operating metrics moving higher. But FFO growth is still negative. I recognize a lot of that has to do with property sales and development. But as you think about that ramp, could you maybe help us think about that trajectory over the next 12, 18, 24 months or so?

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

I guess, first, take a step back and -- your comment about FFO growth. When you look at the accounting change, the impact it's had to this year versus last year, if you back that out, actually, we're actually showing growth. So that we'll take that point and address it.

On the developments and redevelopments that are coming online, we do believe that that's really what's driving the FFO growth for us in a year where we are dealing with $1 billion of dilution from last year. And so when you combine the combination of the core portfolio producing the results that we've done so far this year and the developments and redevelopments coming online, that $16 million to $18 million of incremental NOI this year, and then in 2020 we have another $15 million coming online, we feel like we're in really good shape because it's very visible growth. And that's really what puts our EBITDA and our FFO on a growth path that we feel very comfortable with. And that really brings down our leverage and improves our AFFO coverage ratio.

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. That's helpful. And just one more question, if I may. On Puerto Rico, I don't think anyone's touched upon that in a while. Any updates there? And what are you seeing in the financing market? The CMBS market seems to wide open for strips in the 'U. S., but any loosening credit for Puerto Rican assets?

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

Yes. Well, first off, in terms of the operations of our Puerto Rico portfolio, I could tell you that it's been well above expectation. We continue to see occupancy actually increasing, and the performance of our tenants are doing very well. So the Puerto Rican centers are doing fairly well. To your point, there have not been any real transaction activity that we've seen. We have stayed in touch with the market and lenders while our assets are unencumbered. We do believe that there is financing available for our assets in Puerto Rico. We have heard of equity sources that have been looking in Puerto Rico, but we're very comfortable with our portfolio, with where we sit today. So we'll continue to manage that the best we can and continue to track the market if any activity starts to stir up there.

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. Thanks so much for the transparency on both those questions.

Operator

And the next question comes from Samir Khanal with Evercore ISI.

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

I guess, Conor, if you look at Albertsons today and you look at their metrics and then they reported earnings -- financials are better, profitability seems to be trending in the right direction, net debt-to-EBITDA is coming down a little bit. And I guess, I just want to kind of get your view on kind of the grocer -- maybe over the last 6 months what your view on the grocer is?

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

We're very pleased with Albertsons' results. So when you look at their performance and the positive same-store sales, they really set out some significant milestones that hit this year, and they've hit all the ones that they've laid out. Ray, you want to comment a little bit on the bonds and what we see for Albertsons?

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

Yes, yes, sure. I mean, they -- as you saw, they announced their quarterly earnings yesterday. And subsequent to that, a couple of the bond analysts have upgraded their bonds, showing how the leverage coming down. And if we start from their press release, that 6 quarters of same-site growth in their stores, EBITDA is down over 2 years by $2.5 billion. So we're doing everything in the right direction to put us in a situation to go forward with an IPO at the right time. I mean, our CEOs have started in May or April, and it's been very well received by Wall Street and management. So I think we're putting all the pieces in place to -- with good healthy equity markets to execute an IPO hopefully in the nearer term versus the longer term.

Operator

And the next question comes from Caitlin Burrows with Goldman Sachs.

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

I was just wondering, in terms of the occupancy, it's pretty high now at 96.2% on a pro-rata basis. So I was just wondering, going into 2020, do you think that, that ends up being a headwind? Or do you think that it is possible to increase it further as we move forward?

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

Sure. What we see right now on our box activity going forward and into the back half of this year is very encouraging. So I think we could continue to see the -- potentially the lease economic occupancy actually widen a little bit further, in which case that would create new opportunities for rent flows in the back half of '20 and then going into '21. As it relates to this year, in particular for the second half of the year, for those that are forecasted to actually start rent flowing on an annualized basis, it's about $16 million of cash flow. And for the back half of this year, we expect about $4 million of that to hit '19 alone. So we feel very good about where we stand today.

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

There's still clearly some upside in the small shop occupancy. I mean, we're at 90.5%. We have lease-up that's got to get done on the Paylesses that have vacated and is more -- with the balances of the Paylesses are going to vacate in the third quarter?

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

Yes. So on the Payless, the one thing we will be anticipating or we will be facing in Q3 is about a 10 basis point impact on the remaining 19 Paylesses to vacate this quarter. Obviously again, we've been prepared for that, so we're in the process of backfilling and pre-leasing those spaces themselves. So on the small shop side, you'll continue to see a bit of an ebb and flow, but to Glenn's point, there is upside. Dress Barn, as we already mentioned, could be another potential headwind for '20. But we have a fairly long runway right now to address that. So all in all, we feel very good about the environment that we're in. The quality of our centers are really shining through as it relates to this activity.

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

This is an incredible demand environment that we're in right now. When you look at the vacancies that we currently have on our portfolio and the activity that we have on them, it's really encouraging to see the different sectors. Really, there's a dynamic across multiple sectors. It's not concentrated in just one retail sector, which is exciting.

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

Got it on that great demand side. I guess, just back to some of the topics on watch list tenants. Some of the ones that we've seen in the news that could be closing stores, I don't know if they're in the Kimco portfolio, though, in terms of closures. So it'd be like Bed Bath and Beyond, Pier 1, Party City. I guess, just in the Kimco portfolio, do you expect headwinds from those tenants?

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

Yes. Each of those have their own story that we watch closely, and we stress test our same-site and our guidance and our budgets constantly to understand what the total impact could be. So whenever we go through our budget process, we're constantly stress testing what's worst case, what's best case. The way we treat these is truly a case-by-case basis and lease-by-lease, and it really is supply/demand. And within that, it's something that we have to constantly monitor and be proactive about. But we see very close to the retailers -- very close to the expanding retailers to make sure that we manage it appropriately.

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

I mean, one of the examples I always point to is the Sears-Kmart experience that we saw. We only got 2 locations back. So we only -- we have 11 remaining. And the reason for that is because we have great locations with below-market leases. So even when a tenant goes through a restructuring,

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they typically want to hold on to the locations but give them the best opportunity for sales growth. And so we've been seeing that. The stickiness of our leases is actually pretty strong.

Operator

And the next question comes from Ki Bin Kim with Suntrust.

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

So when you look at the lease spread page in your supplemental, you guys categorize about 20% of your leases as noncomparable. Just curious what, makes those leases noncomparable? And I ask that because if I look at the TI usage as a percent of rental value, which is the way we always look at it, it was 16% for what you call comparable, but 26% for what you call noncomparable. So I'm just trying to understand that bucket a little better.

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

Sure. The difference between comparable and noncomparable is the timing when the prior tenant vacated. So we have a 16-month window between noncomparable and comparable. For example, if the lease went out 6 months ago and you backfill that lease within that window, it would then be comparable. On the other side, if it went out 18 to 24 months ago, and then we just backfilled it today, that would be deemed noncomparable.

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

Okay. And...

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

One of the things you need to keep in mind is those noncomparable leases obviously have been vacant for an extended period of time. So it's nice to see some significant activity in some of those boxes that have been sitting vacant for an extended period.

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

Right. And I don't want to lose sight of that whether that lease price is little a bit weaker than what's comparable or not you're getting a lease. But just for some color, what does the leases spread look like for the noncomparable bucket?

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

It varies. I mean, it's just a case-by-case basis, so it's really hard. The reason why we have comparable leases is because it's more of an apples-to-apples comparison about a true new lease spread, renewal spread versus what a noncomparable is.

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

All right. And just last question. How often is it the case where tenants are willing to renew maybe at higher rents, but coming back to you and saying, "You know what? We don't need 30,000 square feet. We only need 20,000." And how often is that happening?

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

Downsizing has not been something we have been seeing across the portfolio. When you look back at some of the retailers that have gone through a downsizing, you look at what Best Buy did back in the day trying to tick their box from 45,000 square feet down to 30,000 square feet, and then they quickly realized that the disruption that occurs inside the box doesn't justify the cost as well as the repositioning, and they don't see any pickup in sales in terms of productivity.

So a lot of what we've seen actually is retailers that theoretically want to downsize have come back and said, "You know what? We're better off in our existing box. So 45,000 square feet actually works." And now Best Buy even tells us that since they went with their stores in a store concept, they have over 90,000 square feet of demand from smaller retailers to come within their stores. So we really haven't seen any significant downsizing across the portfolio.

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

I think the only other item I would add as well is that you are seeing other retailers come out with different formats. And so in terms of floor plates, there's smaller formats or midsize formats to accommodate the size of the boxes. So they themselves become very creative in adapting to what the current environment is because they still want the best locations and the best real estate. And so they understand at that point that they have to make those accommodations as well.

Operator

And the next question comes from Wes Golladay with RBC Capital.

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

Can you update us on the development yields for the Pentagon Centre and Lincoln project?

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

So Pentagon obviously is in early days of lease-up, but we have raised rents 3x since we started the process, and we're very excited about the absorption rate. Lincoln has also been strong in terms of absorption. You see the occupancy on the supplemental tick up pretty significantly there. But the yields of that we've projected have been holding. So it's one that we continue to monitor as the lease-up continues.

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

Yes. So on our mixed-use portfolio within multifamily, we're typically targeting around a 6% to 6.5% yield on those 2 projects, and we feel good about that.

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

Okay. And then when you look at the tenants that are signing leases right now throughout the portfolio, is there any region that stands out as being stronger than the other and any categories being stronger or weaker? As more specifically looking at the home furnishing category, has that slowed down with the overall housing market in the U.S.?

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

No. Across the country, demand is extremely high, and then we've seen contributions from all 4 of our regions really at top levels and truly just vary in terms of use. As Conor mentioned earlier, it's fairly dynamic out there right now. So you're seeing grocery expansion. You are seeing home furnishing expansion, home improvement expansion, fitness. So a lot of the categories that we've been discussing before continue to ramp and look for the best real estate. Obviously, experience -- experiential continues to be a main focus. And whether that's in a Target box or a brand-new e-tailer that's coming into brick-and-mortar, everyone's really focused on how to attract that customer and make their experience unique.

Operator

And 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 just 2 questions. First, just as you guys look at the environment, both store closings, store openings, your gap between signed but not yet opened has been rather steady. It's increased a bit, but it hasn't narrowed. And obviously, there've been a lot of headlines about store closings, but it sounds like less in real-time. So as you guys are thinking about this year into next, do you feel that your forecasting, your modeling is better than it was, call it, 2 years ago when we were in the grips of a lot of store closings, the same, better? Just trying to get a sense for how comfortable you guys feel in forecasting where you'll be just given that the gap between signed but not yet opened really hasn't narrowed, and that there still are retailer announcements out there?

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

Yes. I think when you look back at that, that range has been consistent because we leased up really all of our Sports Authority and Toys"R"Us boxes and h.h. gregg boxes that we've got back. So there's a reason why it's been elevated as we've been -- we've done some significant leasing to backfill all those boxes to put us at all-time highs on occupancy.

Going forward, that's really something that we continue to monitor. It's a very fluid environment. We feel good about our portfolio. We feel good about where we're positioned. We feel good about the debt maturity profile and the liquidity position we have, but it's really going to be something we monitor going forward. As you heard from a number of the retailers that they are trying to transition to the new world of retail, and some will be able to -- and some will not be able to, but we feel like the portfolio is positioned to outperform.

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

Okay. And then the second question is you have some comments earlier on pricing for assets including portfolio pricing coming back. Just maybe a little bit more color. Previously, the comments had been smaller, maybe under $30 million one-off assets were always very strong. Larger assets, maybe it was over $50 million or over $80 million where tougher portfolios were obviously tougher. Are the bigger one-off assets in the portfolios coming back in large scale? Or is it just that we've seen a few, and those few have had very specific qualities why they have traded. So maybe just a little bit more color there.

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

Yes, I still think the sweet spot for the majority of the private investor is in that $25 million to $30 million range. But it's been encouraging to see a number of examples of $50-plus million, $70-plus million single assets that have had strong demand. I think that part of it is specific to the asset and the retailer sales and the dynamics of what's happening in that market. A big part of it continues to be the availability of financing. And with rates even lower than where we started the year, it gives a very nice spread for the levered buyers.

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So I think there's a very strong comfort level in the open air space, and we've seen the investors willing to pay for that. Portfolios, as I mentioned, this was sort of the first sizable portfolio we've seen in a little bit of time, but we continue to hear about capital formations, looking for more sizable portfolios of retail. So we'll have to continue to monitor the market and see how that goes.

Operator

And the next question comes from Greg McGinniss with Scotiabank.

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

Conor, for the -- this is the second time this year that you've raised same-store NOI guidance but maintained FFO guidance. So what's keeping you from increasing company expectations on that front considering the outperformance in same-store growth?

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

Yes, that's a good point. I mean, we have raised that same-site NOI guidance 2 times this year as the environment has improved. We originally anticipated more fallout, and we seemed to experience more demand. So we continue to monitor that. But if you look at the math in terms of how much the same-site impacts FFO, it really hasn't changed that much. And so we still feel very comfortable with our FFO guidance range for the year. We are going to be monitoring that as we go into the second half of the year. And if the dynamics continue to be on the path we are on, we feel very comfortable with the range we have.

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

Okay. Then, Ross, on dispositions, I know you mentioned you're comfortable with the range, but I think the original goal is to kind of front-end-load the dispositions. So I'm curious. The top end is still reasonable. Did anything change? Are buyers moving maybe a bit more slowly? I know it's still active market. Are you switching up assets to sell? Just any details will be helpful there.

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

Yes, sure. No, we're very comfortable in the higher end of that range. Given the size of the volume that we're doing this year, which is significantly more modest than years past, a couple of deals, timing delays can change sort of the frontloading versus the backloading. So we're in very good shape with where we are to the first half of the year. 1 or 2 assets that we thought could close in June, that would have been part of that first half that got pushed 30 or 45 days, but are still on track to close here by the end of this month and into the beginning of August. We have a couple of closings in the next few weeks. So we feel very comfortable with that range and, again, at the higher end of that range. So no material changes in any activity or the types of assets we're selling. It really just comes down to timing.

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

Okay. And just to reiterate, so kind of thinking that you'd have probably a big Q3 here on dispositions, and high end is most comfortable for the full year?

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

I think Q3 and Q4 should both be very healthy to get us to the upper end of that range.

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Operator

And the next question comes from Michael Mueller with JPMorgan.

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

I apologize if I missed this, but it looks like you have a few hundred million dollars of secured debt maturing over the next few years, where the rates are north of 5%, and even some JV debt as well. And I was wondering, can any of that be refinanced early just given where interest rates are?

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

It's Glenn. Hi, Mike. The short answer is we have to pay a lot of prepayment penalties to go along with that. And a lot of that debt came from acquisitions. So there -- you have these above and below market debt components that go to it. So there's no real advantage to paying the prepayment penalties today. There's not really a lot of debt maturing. We only have $100 million of mortgage debt that we choose next year on the consolidated balance sheet. And a lot of the debt that's in the joint ventures for next year, a good portion of it is in our KIR portfolio, and there's a credit facility that's in place to take those out and actually unencumber those assets.

Operator

And 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*

So first question's a follow-up on Pentagon Centre, just curious on the incremental opportunity there. How many more apartments could you potentially build that you'd get your targeted additional entitlement? And it might be a bit early, but what type of timing or return of anything incremental can you share with us?

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

Sure. We're going through currently the permitting process for the second tower, which should be in the backside of Pentagon. That right now could be approximately 250 units. Our residential units are going to be a near-term opportunity that we could look to activate. Now we have to go through the permitting and the bid process, in which case then we'll assess what the value potentially is there.

Obviously, what's been so encouraging about The Witmer, which is the first tower at Pentagon, is although the announcement for Amazon has occurred, to date, there's been no Amazon employees actually occupying our buildings. So as Conor mentioned, we're at 46% as of the end of June, but that's really not taking into consideration any future influence or impact on the demand from Amazon employees. So then when you look out 2, 3 years by the second tower we push that forward, obviously, that will be a time in which Amazon is starting to take some effect into the market. And so we could feel very good about that potential.

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

Just to be clear, we have 2 million square feet of additional entitlements already secured at the site. And so that's for another tower of apartments, and then a hotel tower and then an office tower. And so the near-term opportunity is to activate a parking lot for the second tower of residential.

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

Got it. Got it. That's helpful thanks. And one more, and, Connor, for you. I guess, I'm a little curious on your view on M&A and the shopping center space today. Given the improvement in your stock and your multiple and your long-term portfolio goals, I'm just curious if there's a scenario in which Kimco could be a player. And maybe what are some of the more important guardrails and requirements that you would require to be involved?

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

Kimco has been a consolidator. We've bought 5 public companies, and we're obviously very large. I think when you look at our stock today, we still trade at a meaningful discount to NAV. And so when you look at the milestones that we intend to hit to help our stock, I mean, we still have a lot of work to do, and we have a lot of execution to take care of. And if we get to a point where our stock comes back, and we have a cost of capital that's advantageous, we would look at further improving our 2020 vision, which is really focusing on our core markets, understanding where we have boots on the ground and efficiencies of scale. I think the last thing you would see us do is run back into the markets that we've taken the last few years to exit. And so we're going to be very disciplined, and we recognize that we've got a lot of work to do, but we've been executing and continue to do so going forward.

Operator

And the next question comes from Linda Tsai with Barclays.

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

How much of the credit -- 100 bps credit loss reserve for 2019 has been used on a year-to-date basis? And how does that compare to the same time last year?

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

So, so far, we've used 30 basis points of the 100 basis points through the first 6 months, and we're a little bit better than where we were last year.

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

And then most of the discussion around credit loss is focused on national chains rightsizing their store spaces, but how has credit loss trended for the mom-and-pops over the last 6 to 12 months?

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

The -- when you look at the small shop occupancy, when you less out the impact of what Payless was, we're pretty much on trend to where we thought we would be in holding the small shop occupancy steady or slightly increasing. So I think that's evidence to the strength of the mom-and-pop retailer right now. Obviously, the franchise model over the last 8 years out of the recession has created a really good opportunity for mom-and-pop retailers to take an existing business and expand it and really focus on day-to-day operations. So I think that's driven itself out well.

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

Yes, I think it's a reflection of the strength of the consumer. I mean when you look at where we sit today and how strong the consumer is, the mom-and-pops have been -- we're sitting at near all-time highs for small shop occupancy. And the mom-and-pop has been a big player in that.

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

Last one, how are you weighing the decision to allocate capital towards redevelopment versus buybacks, given your comment that stock continues to trade at a discount?

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

I think when we look at our cost of capital today and the best use of funds, we would continue to think that redevelopment is the best use today. Now, obviously, we've bought back stock previously when we were trading at a meaningful discount to NAV, but we'll continue to monitor where we trade and continue to look at where our dispositions are trading and we can match funds accordingly. So we feel pretty good about where we sit today.

Operator

And the next question comes Steve Sakwa with Evercore ISI.

Stephen Sakwa - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

I'm just curious how you guys are sort of looking at or thinking about the Kroger-Ocado relationship. I know they've opened up a few facilities in the U.S., and I'm just curious if you have any centers that are nearby, if there's been any impact on how you' sort of think about that relationship longer term.

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

We are monitoring it. I think it's something that continues to evolve, along with Click & Collect. That is sort of the next wave of, I think, pilots of how they're going to be delivering more effectively in dense markets across the country. Right now, what we see in our grocery portfolio is a lot of grocers either typically use Instacart or some of them have brought it in-house to boost their loyalty program. We continue to think that the store has actually, as I mentioned in my earlier comments on what Target has seen, a more effective and more cost-efficient structure. But again, we're monitoring that closely to see what changes and how that relationship evolves.

Operator

And 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 detailed question on The Witmer. When do you -- and I apologize if I missed this, but when do you expect move-ins to begin? And when do you go from capitalizing to expensing on that project?

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

Sorry, I missed the first part.

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

So move-ins began...

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

Move-ins have already started.

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

Yes, yes. And move-ins started July 1 once we got the TCO. So that allows people to start moving in, and they'll continue, obviously, now through the end of the year. Really, at this point, what's an interesting problem that we have is due to the velocity of the leasing at Pentagon, it's actually accommodating all the move-in requirements day in and day out. It becomes very busy and very active. But it's a good problem to have, so we're willing to take on that challenge. But yes, they've already started.

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

Right. The expensing for capitalization will happen in the next quarter or so.

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

Okay. And then, I guess, just in terms of how you're thinking about -- Connor, you mentioned that the rents have been, I guess, increased 3x as you thought about sort of performing the outcome there. Where are rents today as you sit? And then as it relates to sort of stabilization, what are you guys thinking in terms of when that occurs?

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

Sure, yes. On the rent side, we're typically around a blended average of about $3.24 on the units. As it relates to stabilization, we'd always forecast at 18 to 24 months, so we're going to maintain that for now. Obviously, we're ahead of plan. We are in a high season of leasing. So we anticipate it to have a slightly higher volume today than what would happen sort of late fall into winter. So before we make any adjustments, we want to maintain our budget and our plan, and we'll see how we trend through the balance of the year.

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

I will add that our apartment manager there, who manages thousands of units, has not seen demand like this before in his experience.

Operator

And as there no more questions at the present time, I would like to return the floor to David Bujnicki. Thank you for any closing comments.

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

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

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Operator

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

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