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Kimco Realty Corp. (KIM)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Kimco Realty Second Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

David F. Bujnicki

Senior Vice President, Investor Relations & Strategy, Kimco Realty Corp.

Good morning and thank you, for joining Kimco's quarterly earnings call. The Kimco management team participating on the call today include Conor Flynn, Kimco's CEO; Ross Cooper, President and Chief Investment Officer; Glenn Cohen, our CFO; Dave Jamieson, Kimco's Chief Operating Officer as well as other members of our executive team that are also 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 is important to note that the company's actual results could differ materially from those projected in such forward-looking statements due to a variety of risks, 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 our quarterly supplemental financial information on the Kimco Investor Relations website. Also, in the event our call was to incur technical difficulties, we'll try to resolve as quickly as possible. And if the need arises, we'll post additional information to our IR website.

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

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

Thanks, Dave, and good morning. I will begin with an overview of the Kimco consumer, provide an update on the favorable supply and demand environment for our business, and then, share some highlights on our strong operating results, all of which will underscore the resiliency of our high-quality grocery-anchored and mixed-use portfolio. Ross will cover the current transaction environment and Glenn will provide additional financial metrics, report on our balance sheet position and provide our updated outlook.

We continue to navigate an economy that gives off mixed signals. A recent Bloomberg report noted that the American consumer savings have declined with the excess savings cushions that have been built up during the pandemic and used to offset rising prices, that are no longer available. On the other hand, the labor market remains strong, reflecting both job growth and wage growth in the areas of our portfolio is situated. This has led the consumer to remain resilient as they've tempered spending but not retrenched. As JPMorgan recently reported, the consumer is now rotating towards staples and seeking value at Walmart, Costco and off-price retailers who are gaining market share.

As such, we've benefited from the needs oriented nature of our portfolio. As over 83% of our annual base rents come from grocery-anchored open-air shopping centers. It is also high traffic at our properties, has increased both sequentially and year-over-year. This has translated positively to our operating fundamentals as our leasing team is firing on all cylinders. Demand for our well-located product remains strong as tenants seek to retain existing space or add new locations. Our retention levels are near all-time highs with heavy competition for any vacancies, generating increasing rents, better credit and higher valuations.

Nationally, store openings are outpacing closings and the lack of quality retail is having a positive impact in tenant bankruptcy auctions, as leases are being acquired by healthy tenants striving to meet their expansion goals.

In terms of new retail supply, the outlook remains in our favor. It has been well-documented that shopping center development, which currently stands at approximately 0.2% of existing inventory, remains exceedingly low. The shopping center sector has been sub 1% since 2010 and has provided the retail sector a meaningful tailwind to drive record low vacancies across the country. More importantly, we don't see this dynamic changing anytime soon. As we have previously noted, rents would need to increase upwards of 35% to make new development investment worthwhile. This assertion was recently validated by a notable equity research firm, which calculated that the range of rent increases required to stimulate accretive development in the top 50 markets needed to be between 35% to 55%. All of this highlights the strength and unique position of our portfolio.

As I noted with our focus on grocery-anchored necessity-based off-price retail, we are able to generate solid results in all kinds of economic weather. This includes uncertainty of national elections and potential policy shifts, predictions of hard or soft landings and the like.

Our company, which features a resilient, well-located portfolio, strong demographic trade areas, solid balance sheet and best-in-class team stands out. To further illustrate this point now let me touch on a few operating highlights. During the second quarter, we signed 144 new leases totaling 669,000 square feet of pro-rata GLA with rent spreads of 26.3%, our 11th consecutive quarter of double digit new leasing spreads. Renewals and options continued their positive trend with 338 renewals and options completed at a spread of 9%. Overall, deal volume totaled 2.3 million square feet with combined rent spreads of 11.7%.

Leasing velocity and retention drove pro-rata occupancy higher by 20 basis points sequentially to 96.2%. Pro rata anchor occupancy increased 30 basis points from last quarter to 98.1% and was up 40 basis points year-over-year. Small shop occupancy increased 20 basis points sequentially to 91.7%, matching our all-time high set in Q4 of 2023 and representing an increase of 70 basis points year-over-year.

Of note, we continue to derive meaningful outperformance from the RPT portfolio which further validates our acquisition thesis. We executed nine new leases in Q2 with comp rent spreads of 146%, driven by a grocery-anchor replacing a furniture store and a strong fitness operator replacing a weaker fitness [ph] credit (00:06:41). We also executed 24 renewals and options during Q2 at a 17% average spread. Year-to-date, we have executed 19 new leases at former RPT sites with spreads of 87% and 46 renewals and options with spreads of 14%. The former RPT portfolio also produced same site NOI of 4.5% for the quarter and 3.7% year-to-date, meaningfully outperforming our underwriting.

We also increased our cost saving synergies we realized this year as well as additional future revenue opportunities stemming from increasing the RPT's small shop portfolio, which currently sits at over 400 basis points below Kimco's. Additional growth in ancillary income will also be generated by our specialty leasing program. In closing, we are enthused by the performance of our team and our portfolio, resulting in increases to our FFO and same-site NOI outlook. The growth profile of our portfolio continues to trend up and our team

continues to look across the investment spectrum for new growth opportunities, all while remaining vigilant on costs. Ross?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

Thank you, Conor, and good morning. I hope everyone is having a wonderful summer. On last quarter's call, we talked about the solid fundamentals of the open-air retail format. We further discussed the volatility in the capital markets and how it has tempered the transaction environment. While those same themes continue to persist, we are positioned to take advantage of dislocations within the market to invest accretively given our favorable access to capital and multiple investment platforms. We continue to see unique opportunities on both the structured investment side as well as via targeted acquisition opportunities for larger format open-air centers. And in the second quarter, we funded several new structured investments that all have unique attributes, but share a general theme of high-quality real estate, accretive yields and a right to acquire if they are marketed for sale in the future.

I'll touch on three of the more significant transactions. We provided \$8 million of mezzanine financing for an infill core Giant Food's grocery anchored regional center in the dense market of Alexandria, Virginia; \$10 million of mezzanine financing for the acquisition of a Sprouts grocery anchored center in Atlanta, Georgia; and we also funded a senior loan at The Rim in San Antonio for \$146 million at a 9% interest rate. We also converted our existing \$50 million preferred equity position in The Rim to mezzanine financing, giving us greater control of the capital stack on a trophy asset that is one of the most visited properties, not just in Texas, but all of the US.

On the acquisition side, we are encouraged by the deal flow and the possibilities as pricing is moving closer to our hurdle rates. While neighborhood grocery anchored centers in our core markets remain aggressively priced in the 5% to 6% cap rate range, larger format assets in similar geographies with solid demographics and densification opportunities are trading at higher cap rates due to their operational dynamics and the larger check sizes. These unique attributes align well with the Kimco platform and is a differentiator that we believe allows for a better risk adjusted return for our shareholders.

We remain confident in achieving our 2024 acquisitions range of \$300 million to \$350 million that is inclusive of structured investments. As it relates to dispositions, following the completion of the \$248 million of RPT asset sales in the first quarter, we have substantially completed our 2024 plan. Any dispositions in the second half of the year will be very modest and at a much lower cap rate. Therefore, we have reduced our disposition guidance for this year to a new range of \$300 million to \$350 million, which is net neutral with our 2024 acquisition target with a slightly lower blended weighted average cap rate.

Now, on to Glenn for an update on the financial aspects of the quarter.

Glenn Gary Cohen

Chief Financial Officer & Executive Vice President, Kimco Realty Corp.

Thanks, Ross, and good morning. Our high quality operating portfolio generated strong second quarter results as we maintained a strong balance sheet and enhanced our liquidity position. Highlights for the second quarter include continued positive leasing activity, producing increased occupancy, another quarter of double digit leasing spreads and solid same-site NOI growth.

Now, for some details on our second quarter results. FFO was \$276 million or \$0.41 per diluted share as compared to last year's second quarter results of \$243.9 million or \$0.39 per diluted share, representing per share growth of 5.1%. We produced \$387.9 million of total pro rata NOI in the second quarter, an increase of \$45.8

million over the same period in the prior year. This growth was driven by \$38.3 million of pro rata NOI from the RPT acquisition, \$12.8 million from higher minimum rents and \$1.6 million from higher net recoveries from the balance of the consolidated portfolio.

These consolidated NOI increases were impacted by lower percentage rent and other income of \$3.5 million, which was mostly due to timing and higher credit loss of \$1.4 million. Our credit loss for the first half of the year was 86 basis points, The midpoint of our bad debt assumption. The net NOI increase was offset by greater pro rata interest expense of \$14 million due to the higher interest rate on the \$500 million bond issued in the fourth quarter last year related to the refinancing lower coupon debt, \$510 million of additional debt in connection with the RPT acquisition and lower fair market value amortization related to the payoff of the Weingarten bond.

The operating portfolio continues to produce strong results, as Conor outlined. Same-site NOI growth was positive 3% for the second quarter. The primary driver was higher minimum rents contributing positive 3.4%, driven by quicker rent commencements from the signed-not-open pipeline, which compressed 10 basis points from last quarter to 320 basis points. At the end of June the signed-not open pipeline represents 426 leases and \$63 million of ABR, of which \$30 million is expected to commence in the second half of the year, generating \$8 million for the remainder of the year. For the six months of 2024, same-site NOI growth was positive 3.4%. These results demonstrate the continued strength of our well-located portfolio.

Turning to the balance sheet. We ended the second quarter 2024 with consolidated net debt to EBITDA of 5.5 times. On a look through basis, including pro rata JV debt and perpetual preferred stock outstanding, net debt to EBITDA was 5.8 times. These metrics would have been one tick better if we included the full quarter of income from the \$146 million structured investment in The Rim shopping center made in late June. Subsequent to quarter end, we increased the size of our \$200 million term loan by an additional \$300 million. The term loan has a final maturity date in 2029, and we swapped the \$300 million to a fixed rate of 4.78%, including our credit spread for the full term. We used the proceeds to repay \$220 million outstanding on our \$2 billion revolving credit facility, which had a borrowing coupon of 6.19%. The balance of the funds was invested in an interest-bearing account earning in the mid-5s pending use for investment.

Separately, we achieved the high end of our sustainability goals by surpassing our required scope 1 and scope 2 greenhouse gas emission reduction targets. As a result, the borrowing spread on our \$2 billion revolving credit facility and our \$310 million term loan is reduced under the green pricing feature. The reduction is 4 basis points from the stated credit spread for both facilities, and we get a 1 basis point reduction in our facility fee on our revolving credit facility.

Now, for an update on our outlook. Based on our strong first half results and our expectations for the balance of the year, we are again raising our FFO per diluted share range from \$1.56 to \$1.60 to a new range of \$1.60 to \$1.62. Our increased FFO per share guidance range incorporates the following updates to our full year assumptions. Same-site NOI growth of 2.75% to 3.25% from the previous level of 2.25% to 3% and is inclusive of the RPT assets and a credit loss assumption of 75 basis points to 100 basis points. Full year cost saving synergies from the RPT acquisition improving to \$35 million to \$36 million. Interest income expected to be between \$13 million to \$15 million. And lower disposition guidance of \$300 million to \$350 million. Our other full year guidance assumptions remain intact.

I want to thank all our associates whose efforts significantly contributed to our outstanding results. We are well-positioned to deliver growth. And with that, we're ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Michael Goldsmith with UBS. Please go ahead.

Michael Goldsmith

Analyst, UBS Securities LLC

Q

Good morning, thanks a lot for taking my question. My question is on the guidance and you took the FFO guidance higher to \$1.60 to \$1.62 and that was supported by both the higher same property NOI expectations as well as some other moving pieces. So, can you just kind of walk through like how much of a contribution of the FFO guidance is driven by the same property NOI? And then, what are the other pieces that are driving the forecast higher? Thanks.

Glenn Gary Cohen

Chief Financial Officer & Executive Vice President, Kimco Realty Corp.

A

Sure, Michael, the primary driver really is the operating portfolio. Again, our rent commencements have been quicker than what we had originally forecasted. So, that's a major driver and that also drives same-site NOI growth because it's cash based, that – expense control is another piece. So, we've been really very focused on expense control both at the property level and the G&A level. Those are the primary drivers, but it's really coming from the operating portfolio.

Michael Goldsmith

Analyst, UBS Securities LLC

Q

Thank you.

David F. Bujnicki

Senior Vice President, Investor Relations & Strategy, Kimco Realty Corp.

A

Yeah, I would also say, Michael, that as we talked about, it's also the RPT. We've had better execution than planned. So, that's doing well for us as well from the guidance increase.

Michael Goldsmith

Analyst, UBS Securities LLC

Q

Just as a related follow-up here, really, you've done same property NOI of 3.4% for the first half of the year. The guidance assumes that decelerates in the back half. Can you kind of walk through what are the factors that are going to drive that deceleration in the back half of the year?

Glenn Gary Cohen

Chief Financial Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah, I mean, again, we've increased the guidance range of same site now twice during the year. Again, the portfolio is performing very well. We do have a tougher comp in the third quarter of last year based on some one-time things that were in there that has a little bit of an impact. But overall, we feel very comfortable with the revised guidance range that we've put out.

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

Yeah. And we also – we look at same site as an annualized number. There's always – as Glenn mentioned, there is noise quarter-to-quarter, timing of expenses, recoveries, et cetera. It really is always intended to be an annualized number. So, when you look at the annual outlook and we've increased our guidance, is a good indication of the direction we feel we're going.

A

Michael Goldsmith

Analyst, UBS Securities LLC

Got it. Thank you very much. Good luck in the back half.

Q

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

Thank you.

A

Operator: Our next question comes from Samir Khanal with Evercore ISI. Please go ahead.

Samir Khanal

Analyst, Evercore ISI

Good morning, everybody. Hey, Conor, you spoke about the RPT portfolio, the 400 basis point spread in shop occupancy. I guess just trying to understand kind of the ability to close this gap. I mean, what's the timing on this, considering that I would imagine some of that is probably harder to lease space, right? You need some capital spend on that for anchor repositioning. So, help us walk through kind of how to think about that closure of the gap over the next several years? Thanks.

Q

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

Yeah, happy to, Samir. That – look, we look at that vacancy as real upside. So, when you look at the SNO pipeline or the signed-not-open pipeline of the former RPT portfolio, that's what's really getting compressed. So, we were driving that the first two quarters and that's why you saw over 4% same-site NOI in that portfolio for the second quarter. Now, as those anchors start to come online, that's when you're going to start to see the pick-up in the small shop leasing, because typically you want to have an operating anchor that's easier to fill around where you can mark-to-market those rents around the former vacancy, whereas previously if you have a vacant anchor box, it's a lot harder to lease the small shops around that vacancy. So, we do anticipate, because we've seen it in our own portfolio, the small shop leasing continuing to show the strength and the acceleration. And we are very focused on driving the small shop occupancy in that portfolio because, again, that's where we see upside. That's really sort of the investment thesis that we continue to focus on and execute on.

A

Operator: The next question comes from Dori Kesten with Wells Fargo. Please go ahead.

Dori Kesten

Analyst, Wells Fargo Securities LLC

Thanks. Good morning. And the strips had a nice run earlier this week. Based on your discussions with private equity peers, how would you describe interest in the strips today versus, say, six months ago? And then how are you viewing your own NAV today versus where you're trading?

Q

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Thanks, Dori. Yeah. We've been pretty consistent this year that capital formation has continued to accelerate for open-air shopping centers. I think when you look at the recent transactions that have been announced, Cohen & Steers obviously coming in, in a joint venture to buy a grocery-anchored shopping center. When you look at the amount of capital formations from the institutional investors, private equity, I mean it's very clear the supply and demand that we've been talking about is starting to come into focus because it's showing up in the numbers and it's really producing significant growth. And I think the other big piece of it is the cap rates for the product are still relatively attractive when you look at other sectors. And I think that is really driving a lot of interest because of the lack of new supply on the horizon. I feel like that really opens people's eyes back up to the shopping center sector.

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah, and I would just add, I mean, we have a pretty strong purview given the joint venture partners that we have, they're all pretty diverse and have different views on retail. And across the board what we're seeing is a lot of private equity and other formation that have really gone from, I would say, retail curious to retail active. And that really is something that we think is going to push both cap rates, activity and investment in the back half of the year and forward and beyond that.

Operator: And the next question comes from Juan Sanabria with BMO Capital Markets. Please go ahead.

Juan C. Sanabria

Analyst, BMO Capital Markets Corp.

Q

Hi. Thanks for the time. Just curious on the structured investments, if you can comment on the types of opportunities incrementally you're seeing in the market yield expectations. And you kind of mentioned as well, maybe more opportunities for some bigger centers and how we should think about incremental deal flow second half and going into 2025?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Absolutely. The structured investment is a unique product that every deal is a little bit different. I indicated three of the transactions that we closed on in the second quarter. It was a combination of a recap of an existing owner. One was acquisition financing, and then, of course, The Rim was an exciting, unique opportunity where we had the ability to further strengthen our position in a dominant asset that has a tremendous amount of equity embedded in it, and ultimately, could become an acquisition target. So, whatever the outcome of that asset and investment, it is going to be a positive for Kimco.

I think that on a go-forward basis, as we look at the third and the fourth quarters, our expectation is that our investment activity will be more heavily weighted toward core acquisitions as some of the structured investments have been completed. And again, they're sort of one-off and unique in nature, but there's definitely a place for our capital within the stack, whether it be repositioning, financing, new acquisitions as we've seen volumes starting to increase and a lot more optimism. As the rate environment – as there's an expectation that the cuts might be coming and there just seems to be a bit more stability and optimism in the environment. So, I think that the back half of the year is going to be [ph] active (00:24:45) and positive for Kimco.

Operator: And the next question comes from Greg McGinniss with Scotiabank. Please go ahead.

Greg McGinniss

Analyst, Scotia Capital (USA), Inc.

Q

Hey, good morning. Ross, just to better understand on that acquisition guidance, the 7.5% blended cap for the year, on midpoint \$325 million of investments seems to imply a 0% cap rate on the remaining \$80 million. Is there a – I mean, it sounds like you're talking about core assets, but are we missing something on the math there? Or is there a plan to buy land?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

It's not – certainly not land play. I think when you look at the guidance, it is a blended spread between our structured investments and our core activity. As you've seen, clearly the first half of the year has been heavily weighted towards structured investments. We do anticipate that in the second half of the year there's going to be more activity on the core acquisition. So, as we have a little bit more color and clarity on the specifics of the deals that we're looking at now, we'll certainly update that guidance in that range. But with where we sit today and what we know is in the pipeline, we're comfortable with where we sit.

Greg McGinniss

Analyst, Scotia Capital (USA), Inc.

Q

Okay. And on the development side, Coulter Place seemed to have pretty limited investment this quarter. Is there a slowdown to development happening there? Any color would be appreciated?

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah, no, we – right now, we poured the foundation for the parking, [ph] turning (00:26:17) parking and then the ground floor retail. It's construction is underway. Just as a reminder for us, it's a preferred equity structure. So, our capital investment is limited.

Glenn Gary Cohen

Chief Financial Officer & Executive Vice President, Kimco Realty Corp.

A

As a matter of fact, I'll just add that our capital is actually fully in. So..

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Correct. You won't see any increase going forward.

Glenn Gary Cohen

Chief Financial Officer & Executive Vice President, Kimco Realty Corp.

A

Correct.

Operator: And the next question comes from Craig Mailman with Citi. Please go ahead.

Craig Mailman

Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys, just to go back to maybe The Rims a bit, you guys are about \$200 million of the capital stack now, could you give us a sense of maybe what the LTV of that overall property is? I mean, given the 9% rate it seems like – and versus what others are getting for high quality kind of strip and open air, that seemed kind of a high coupon. I mean, is this – I know you alluded to you guys always look for loan to own, but is this something in the near term you guys could get an equity stake in? How should we kind of think about this particular investment?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Sure. Happy to. Yeah, and The Rim is really an exceptional asset, performs really well. Our partner/borrower has executed on the business plan exceptionally well. Leasing is strong. We're right around 100% occupied there. Our expectation in terms of recent valuations is that there is at least \$50 million of equity in that deal. So when you're looking at it from our position being just under \$200 million from an LTV standpoint, we're right at that 80%, which is really where the structured investment program is intended to sort of cap out. So, we feel very comfortable with where we sit.

As I mentioned, it's still a little bit unclear as to ultimately where that shakes out. But whether we get repaid and keep our position in the deal or ultimately own it, I think that either outcome would be a fantastic one for Kimco. You are correct that the coupon is clearly high. It is intended to be relatively short term while I think the borrowers consider what the next step is there, whether it be a refinance, a sale or otherwise. So, there are some moving pieces there, but we're in a really strong position.

Operator: And the next question comes from Alexandra (sic) [Alexander] (00:28:39) Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Q

Good morning. And I'm still Alexander Goldfarb. Alexandra – I don't know. I guess I'm a new age fluid person. So, question for you, on the small shop because that's where a lot of the juice is coming from, not sure if you've quantified, but maybe you could. The impact to FFO or NOI margin as the small shop leases up, becomes occupied, paying rent, you mentioned 400-basis point lower small shop occupancy in the RPT versus Kimco. And obviously in the release you highlighted the record leased rate in the Kimco portfolio, 91.7%. Can you just give some framework around what the earnings benefit as this small shop takes effect, maybe every 100 bps of small shop occupancy versus the larger boxes because I got to believe that the earnings impact is superior just given the better economics?

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah and a great question, Alex. The – Alex, doing the math quickly. So, you've about 25 million square feet of small shop space. If you take 100 basis points of that, it's about 250,000 square feet. Average rents for our small shop is around \$32 a foot. So, you multiply that, you get around \$8 million of ABR coming from that. And that excludes obviously any recovery benefit you would get from that as well. So, you take that quantifying the FFO gain, there's obviously significant upside. And when you look at – so how we've been trending, obviously on the small shop activity for Kimco and what we anticipate what we could potentially do on the RPT side, we see real benefits going forward. On the SNO pipeline, that \$63 million, on the non-anchor side, it represents about 47% of that total \$63 million. So, you're starting to see a real meaningful contribution from the small shop growth.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Small shops also typically take less time and less capital to come online. So, clearly, it's a focus. Clearly, we understand the upside and we continue to ride the momentum.

Operator: And the next question comes from Floris van Dijkum with Compass Point. Please go ahead.

Floris van Dijkum

Analyst, Compass Point Research & Trading LLC

Q

Hey, guys. Following up on the small shop concept, obviously, it's a huge earnings driver and upside potential. I know you guys are around 49% of ABR from shop space today. Where do you think once the portfolio stabilizes, that percentage of ABR from shop space goes to or can go to?

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

It's a good question, Floris. I mean, I think we are laser focused on driving that small shop occupancy. Obviously, we're in uncharted territories because if you think about the drag that the RPT portfolio had on Kimco's small shop occupancy, we're setting records this quarter. So, we have the ability to continue to push. We don't see any hurdles in front of us that should sort of derail the momentum that we're seeing and trying to generate as much growth from the small shop side is really the focus. The occupancy on the anchors is over 98%. There's still a lot of demand there. As I mentioned earlier, a lot of leases that are in bankruptcy auctions are being acquired because they can't find good quality retail space. So, they're acquiring it out of the bankruptcy process. But I think when you look at the small shop occupancy side, there's really -we're not sure how higher we can push it, but we're going to push it as hard as we can to all-time highs.

Operator: The next question comes from Jeff Spector with Bank of America. Please go ahead.

Jeffrey Spector

Analyst, BofA Securities, Inc.

Q

Great. Good morning. Conor, just based on your opening remarks around the economy, mixed signals, the consumer, what is the – what are the marching orders to the leasing team at this point? Changing your leasing strategy or staying aggressive? Thank you.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Thanks, Jeff. It's pretty consistent, I think, when you got the advantage that we have in terms of advantages of scale, we try and be proactive and work with our partners, our retailers to try and make sure that we are the first call and looking out two, three, five years even for their growth strategy. So, the benefit of Kimco's portfolio is a lot of our retailers are regional and some of them have yet to even consider some of our target areas where we have phenomenal portfolio. So, when you look at some of the retailers that have done quite well recently like Sprouts Farmers Market for example, they have yet to even really penetrate some of our markets. And the same goes for some other grocers. We did five grocery anchored leases this quarter, five, and we feel like that demand is still accelerating.

And when we look at our portfolio, a lot of our strategy is to utilize the platform and the team to go and unlock more value by adding groceries to it. So, there's a lot of momentum there. Clearly, the focus is on executing.

We've got a lot of tools at our disposal. We just designed a brand new interactive site plan that we're really excited about that actually links to all of our data. So, it's really sort of a unique tool that allows our field team to be able to utilize it in the field with the retailers to be able to generate more leasing opportunities. So, a lot of things clicking on all cylinders right now and obviously you can tell we're super excited to continue the momentum.

Operator: And the next question comes from Ronald Kamdem with Morgan Stanley. Please go ahead.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Q

Hey, just two quick ones. One on the RPT, just looking at the slide in the deck, which is really helpful. I think we talked about the 420 basis points small-shop occupancy, but can you hit on just the Mary Brickell Village redevelopment? Just the timing? I know it's farther out, but how is that sort of progressing? How are you sort of thinking about executing on that, would be question one. And then, the question two is just on the breadcrumbs on same-store NOI. It seems like you're going to continue to gain occupancy from here. The portfolio's pretty full with sort of similar bad debt assumptions this year as last year. Is there any reason why you can't do another sort of 3% sort of long term going forward? What are the puts and takes there? Thanks.

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah. On the Mary Brickell side, you're right. I mean, there is a tremendous amount of opportunity there. Right now, near term, we mentioned of the merchandising plan and the re-leasing opportunities are significant. You're seeing rents go from the 40s up into the triple digits. And so, our focus right now is near term opportunities to remerchandise, reposition [indiscernible] (00:35:49) healthy portions of that asset. And that will be the focus in the near term. As relates to your other question.

Glenn Gary Cohen

Chief Financial Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah. Yeah. As it relates to, look, the same site again, we are very comfortable with the guidance range that we have, so 2.75% to 3.25%. Looking out longer range, obviously our intent is to continue to drive same-site growth as much as we can. But again, it's an annual number. Again, a quarter by quarter makes it – it's a little tricky quarter by quarter every 90 days. But the team is incredibly focused on generating leases quickly and getting those tenants open as fast as we can. We've dedicated a lot of resource to helping our tenants get those stores open and getting the rent commencement as quick as possible. So, that's the driving force today.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

The only other thing I would add on Mary Brickell Village is you've probably seen a lot of the news headlines of all these development going up around Mary Brickell Village and the demand there from the retailers continues to accelerate. Market rents continue to accelerate and Mary Brickell Village was obviously part of the RPT portfolio and that price per square foot for the whole portfolio was \$165 a foot, which included Mary Brickell Village.

Operator: Next question comes from Caitlin Burrows with Goldman Sachs. Please go ahead.

Caitlin Burrows

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Maybe just a little bit more on the leasing side. It feels like the environment's been pretty good for a while. So, what are some of the key stats you guys use to gauge leasing interest and activity, is it like the size [indiscernible] (00:37:24) number of lease proposals, et cetera? And how are they trending and has there been any change to who the active tenants are?

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah, I mean, first on the – start with retention. Obviously, our retention rates right now are about 90%, which are sort of exceeding our historic highs over the last several years. So, the demand for existing tenants to remain in place and want to renew and continue to operate their business with us has been really, really encouraging. On the new lease side, the acceleration of both the anchor and the small shop activity. Again, as Conor mentioned several times before, hitting our all-time highs. I think that's your best indicator of showing the demand side. So you're retaining and then you're growing.

And then, in terms of how you're looking forward in terms of new retailers that are looking to expand into the portfolio, you're seeing a lot of ethnic grocers being very proactive in the sector right now, which is great. And they're looking not only one to two years, but really three plus years out now and planning for well into the future. Because as we've mentioned earlier, there is no new development supply on the horizon in any meaningful way to create new inventory. So, it's all about second generation space. All of these retailers need to hit their mark and hit their own growth strategies. So, they want to be as proactive with us as we are with them. And you're seeing that, too, in terms of obviously deal terms and the flexibility of the space in which they target.

Prototypes were something coveted in the past. And now they've become much more flexible in how they utilize the space, can either expand or contract to fit into the opportunity that's presented in front of them. And so it's really – developed really strong partnerships with all of our retailers and resulted in all of us having to get creative to help achieve both collective goals.

Operator: And the next question comes from Linda Tsai with Jefferies. Please go ahead.

Linda Tsai

Analyst, Jefferies LLC

Q

Hi. Two-part question. You mentioned SNO getting opened faster. Is there any way to quantify how much more quickly this is happening? And do you think you have the ability to move it even faster?

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Sure. In the first part of this year, we anticipated our SNO contribution at \$25 million to \$30 million. We're now at the upper end of that range, so \$30-plus million for the year with, as Glenn mentioned in his prepared remarks, about \$8 million coming online for the second half of this year. And then when you look ahead in terms of what's going to be contributed as it relates to that \$63 million between 2024 and 2025, about \$30-plus million will start to come online in 2024 and then another \$20-plus million will come online in 2025. So, that's almost 85% 90% of that SNO pipeline starting to flow over the next 12 months. How we're doing this is just exhaustive work. It's – simply put that's tenant coordination, the construction team, leasing team, [indiscernible] (00:40:29) property management, are all exhausting, all of their efforts to help solve problems in the field, challenges and develop opportunities to open them sooner. That's the only way you can get it.

Linda Tsai

Analyst, Jefferies LLC

Q

And then just to follow up on the transaction environment. How much have cap rates compressed since the beginning of the year? And then what's the level of compression you might expect over the next 12 months?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah, I think in the first half in the year it's been fairly consistent. As we talked about, transaction volumes have been lower this year compared to 2023, but the deals that are getting done continue to be at fairly aggressive rates. So, we haven't seen much movement for comparable product in terms of the cap rates that they're trading at. That being said, there, as I mentioned, is a fair amount of optimism that the back half of the year and into 2025 with the amount of capital that's been on the sidelines that's ready to invest and with the expectation that the rate environment is stable if not moving lower, the anticipation is that there's going to be more capital which inherently should push cap rates down gradually over time.

Operator: And the next question comes from Wes Golladay with Baird. Please go ahead.

Wes Golladay

Analyst, Robert W. Baird & Co., Inc.

Q

Hey, good morning, everyone. It looks like just under 30% of the anchor leases expiring through 2025 have no option. It looks like they are older leases, about a 40% mark-to-market. How should we think about retention here? Would you look to force move-outs, get more relevant tenants in?

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah, that's a great question. So, right now, you're right, it's about 52 leases [indiscernible] (00:42:06) with no options in 2025. We've resolved or are in the process of resolving about half of those already. So, it's a combination of identifying new opportunities to backfill space at higher rents, retaining the existing tenants in place at a market rent. And what we do is we look at, in today's environment, the merchandising mix and what is best for the asset long term to drive shareholder value and to best support the needs of the shopping center itself. So, it's a combination of all those activities. But again, we're already looking ahead into 2025 and feel very good about the outlook.

Operator: And the next question comes from Paulina Rojas with Green Street Capital. Please go ahead.

Paulina Alejandra Rojas Schmidt

Analyst, Green Street Advisors LLC

Q

Good morning. As you described, the sector's background is clearly very solid. And based on your experience, what level of year-over-year rent growth should these solid fundamentals translate into? If you think about the next 12 months to 24 months. And also if you could comment on how your negotiating power evolving with anchors? It seems to be to me that most of the rent growth is coming from the shop side of the business. Thank you.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah, good question, Paulina. I think what you've seen is the trajectory of the same-site NOI growth continues to improve. When you look at the components of that, as you know, a lot of it has to do with retention because we're so highly occupied. So, as retention rates remain high and we're getting the incremental growth from new leasing, we're seeing 3% plus over the past three quarters that we've been able to produce. So, when you look out, it's hard to extract exactly what the new glide path looks like. Historically, our sector has produced around a 2% same-site NOI growth profile. Obviously, we're trending towards higher than that, but we like the – just executing on where we are today and continuing to look at the opportunities that going forward, clearly, we've talked a lot today about the small shop opportunity we have. We think that will continue to manifest in our numbers. And then on the anchor side?

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah. On the anchor side, the conversation, we've sort of break it into three broad categories. Obviously, on the terms you mentioned growth, we're continuing to push rent escalations both in the primary and the option period, ensuring that we retain as much control as we can into the future. When we look at the space, I mentioned this before, growth also comes from the combination of being more flexible with the space in which they're willing to occupy. So, if you're able to show some flexibility and modify that prototype to get them in place, you then also get the halo effect benefit from the balance of the center with a tenant open and operating. And then finally with timing too, as I mentioned, we're building a very robust pipeline into the future. And so, we're working with our retail partners and our anchors to look well out in front, 12 months, 24 months, 36 months and beyond to help achieve both collective goals. So, we're seeing, the conversation evolve pretty dramatically in several broad categories.

Operator: The next question comes from Haendel St. Juste with Mizuho. Please go ahead.

Haendel St. Juste

Analyst, Mizuho Securities USA LLC

Q

Hey, good morning. So, I guess, first question I have maybe for you, Ross, I guess I was surprised a bit in the reduction in the dispositions here. I know it's not a sizable amount, but then, you're not in a position needing to sell assets. But we've heard of scarcity premiums, increased buyer interest. So, I guess can you add a bit more color on why you're pulling back here? You're not getting the demand or pricing you want? Are the assets perhaps better than you appreciated or are you preferring to keep the cash flow? What are we not appreciating or what's changed since you first contemplated the sale of a greater portion of these former RPT assets? Thanks.

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Sure. It's just looking at the outlook of where we are right now, the 1st of August, we, as I mentioned, completed the vast majority of the dispositions that we had planned. We are really excited with the execution on the RPT dispose. And when we look at the performance of the portfolio that we have right now, there really isn't a need to further dispose. We have the availability of our full credit facilities. Our liquidity is in the best shape that it's been in. So, it's not a capital need per se. We do have several assets that are within our joint ventures that are currently in the market. We're not certain if a few of those or any of those may or may not transact, but if they do, they'll certainly be at significantly lower cap rates than where we've been, which is sort of what prompted the decision to drop the upper end of the cap rate range on the dispositions. So, it really is just a combination of the entirety of our capital plan and our outlook and the performance of our portfolio. And we feel really good about where we are and we'll revisit where things shake out when we go through the budgets for 2025. But at least through the end of 2024, that's where we feel most comfortable.

Operator: The next question comes from Mike Mueller with JPMorgan. Please go ahead.

Michael W. Mueller

Analyst, JPMorgan Securities LLC

Q

Yeah, hi. Just a quick one on bad debts. So, for the 86 basis points that you had in the first quarter or the first half of the year, can you talk a little bit about the makeup of that, how concentrated or diverse was it, types of tenants? Anything notable there?

Kathleen Thayer

Senior Vice President, Corporate Accounting and Treasurer, Kimco Realty Corp.

A

Yeah. Thanks so much for the question. So, you're right, the credit loss for the year-to-date is at 86 basis points. There is really nothing, no current tenants that are having concern inside that number that would make us go outside of our projected credit loss guidance of 75 basis points to 100 basis points. For the quarter there's definitely an impact of timing in there. So, we bill a majority of our CAM bills as well as some real estate tax bills during the second quarter. And as such, any tenants that are cash basis, you have to put up 100% reserve right away. So, it's definitely a timing impact. But overall, we're not seeing anything in the AR in terms of creep or any acceleration on year-over-year. Our levels are pretty stable and flat, so we're very comfortable with our 75 basis points to 100 basis points that we have in guidance.

David F. Bujnicki

Senior Vice President, Investor Relations & Strategy, Kimco Realty Corp.

A

Next question.

Operator: And the final question comes from Michael Gorman with BTIG. Please go ahead.

Michael Gorman

Analyst, BTIG LLC

Q

Sure. Sorry if I missed it, but can you just talk for a minute about the occupancy cost ratio that you're seeing as you're out there doing the new leasing? And I guess specifically, the reason I'm thinking about this is obviously from the traditional real estate supply demand perspective, there's a lot of strength there. I'm just wondering how much continued strength and rent growth the tenant environment can support here? And has there been any shift in the tenant thought process in terms of how much of their cost structure can go towards rent and towards real estate?

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah, occupancy cost ratios vary sector to sector, retail to retailer because it's a combination of really how they run their business and the margins associated with the products they sell. But it's always a continued dialogue between, what is the all-in costs for our leases both on the base rent and the CAM associated with that rent. And it's a negotiating point. Obviously, when you have multiple bidders at the table, you have that opportunity to push those rents higher. But it's something that that we're mindful of. They're mindful of. But right now what we're seeing, we're still continuing to see very healthy, strong rent growth from where we were historically and are encouraged by the direction.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah, Mike, don't forget that now most of brick-and-mortar retail is used as a distribution and fulfillment point, so the occupancy cost of the old days of just the four walls has changed dramatically. And I think we're just – honestly, I think we're just scratching the surface in terms of the value proposition of the store and the true occupancy cost because the margin gets enhanced if you can run the e-commerce sale through the store and most retailers have that as their business model, which continued to show why they're putting a lot of capital towards expansion goals today.

David Jamieson

Chief Operating Officer & Executive Vice President, Kimco Realty Corp.

A

Yeah, that's actually a great point because they're now looking at it like trade area in its totality and how much market share they're grabbing out of the entire trade area. So, the way in which they're viewing the world is very different than just the days of old where it was just four wall EBITDA growth, but [ph] that's were the larger catchment area that this store can develop (00:51:13).

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

David F. Bujnicki

Senior Vice President, Investor Relations & Strategy, Kimco Realty Corp.

Just like to thank everybody that participated on our call today. We hope you enjoy the rest of your day as well as the rest of the summer. So, thanks so much.

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

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