29-Jul-2021

Kimco Realty Corp. (KIM)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Kimco Realty Second Quarter 2021 Earnings Conference Call. All participants will be in a 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 Dave Bujnicki. Please go ahead.

David F. Bujnicki

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

Good morning. And thank you for joining Kimco's second quarter 2021 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 Kimco's 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'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. 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 our website.

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

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

Good morning and thanks for joining us. Today, I'll focus my remarks on our operating results, the supply and demand dynamics surrounding those results, the strategic direction we are taking the organization, and the powerful position Kimco will have upon the closing of our merger with Weingarten. Ross will then provide some perspective on the transaction market, and Glenn will provide additional financial insight on the quarter along with our updated guidance.

As I have often mentioned, our core focus has been and will continue to be on leasing, leasing, leasing. It fuels our growth, validates the quality of our portfolio, strengthens our balance sheet, reduces risk and is a catalyst to overcome pandemic-induced disruption.

Our second quarter leasing activity and overall results continue to build upon the success that began earlier this year as we lease 1.8 million square feet and signed 333 leases. This leasing included 139 new leases of GLA exceeding the prior sequential quarter. Overall occupancy finished at 93.9%, up 40 basis points. While our new leasing spreads of 9.2% and renewal spreads of 4.7% resulted in a record 42 quarters or 10 years in a row of positive spreads.

The combination of record leasing demand and a five-year low of new vacancies continue to drive the earlier than anticipated occupancy recovery for Kimco. Traffic at our properties is back to 2019 levels and the healthy leasing market reflects the reopening of the economy and the rush by tenants to capture market share is apparent as they pursue our high quality locations.

Moreover, in our attractive and strategically selected markets, we do not anticipate any material new supply in the near term to impact our pricing power. Robust demand for anchor space continues across our portfolio. Centers with a grocery component have outperformed during the pandemic and continue to lead the rebound. We're also seeing data on restaurants that show people are eager to go out and eat again, with the Sun Belt states outperforming.

Similar trends with fitness where traffic is coming back quickly. On the store openings, off-price continues to be a leading source of demand, but we're also seeing solid demand from furniture, home goods, pet supply, hobby, health and wellness, including discount fitness just to name a few.

Our anchor occupancy finished the quarter at 96.9%, up 70 basis points, which is the single largest quarterly gain since we started reporting anchor occupancy 10 years ago. Small shop demand also continues to recover albeit at a slower pace. The small shop demand that's now building is coming from franchise quick-service restaurants, beauty, hair and nail salons, medical, and other services.

While small shop occupancy did finish down 30 basis points to end at 85.5%, it was impacted from the inclusion of Dania Phases II & III into occupancy. If not for this, small shop occupancy would have actually increased sequentially by 30 basis points during the second quarter, and we remain confident that the smaller tenants will gradually accelerate their demand for space as they gain comfort that the recovery from last year's severe disruption is sustainable.

Further, the importance of being located as the last-mile solution for a multitude of potential tenants continues to grow. Our mission-critical last-mile brick-and-mortar locations will prove to be durable solutions for consumers, retailers, and many other businesses that want scale and reach to serve the end consumer.

One silver lining of the last year and a half is that it showcased the strength of our repositioned grocery-anchored portfolio, the resiliency of our cash flows, and the strength and diversity of our strong mix of high-credit tenants. As our occupancy recovers, we anticipate EBITDA and FFO growth will follow and bolster our balance sheet metrics. We are also in a unique position to drive earnings results with multiple levers for growth, led by our continued emphasis on leasing and attractive redevelopment opportunities.

On the strategic front, the completion of our accretive merger with Weingarten is fast approaching and ahead of schedule. The shareholder votes are scheduled for August 3 and subject to customary closing conditions, the closing should occur shortly thereafter. With Weingarten's portfolio combined with Kimco's, following the merger we will be even more confident in our ability to drive significant and sustained value from this concentrated platform of open-air, grocery-anchored and mixed-use assets in the leading MSAs across the country.

Touching further on the power of the merger, the combined company will continue to focus on operating a dynamic and well diversified portfolio in these markets but with greater scale, resources, and embedded opportunities. We expect that the complementary business operations will allow us to extract annualized cost efficiencies while deleveraging our balance sheet. I think it is important to reiterate the scale and reach we will have with our targeted first-ring suburbs of core markets across the Sun Belt.

Together we'll have approximately 550 open-air, grocery-anchored shopping centers and mixed-use assets comprising more than 100 million square feet of gross leasable area. At closing, approximately 82% of the company's total annual base rent will be derived from strategic Sun Belt growth markets and high barrier to entry top coastal markets.

The combined platform will also have a highly diversified strong credit tenant base with the top 10 tenants all essential, industry leading grocers, and best in class retailers with no single tenant representing more than 4% of ABR. And given that we're not completely out of the pandemic woods yet with the reality and threat of new strains, we believe the combined portfolio, strong balance sheet, and battle tested team puts us in an even better position to withstand any disruptions to the ongoing recovery.

Looking beyond the closing, the Weingarten portfolio brings a largely funded and derisked development pipeline and presents vast potential in the form of embedded, untapped redevelopment from which we believe we can extract incremental value. [audio gap] (00:07:50) combination will result in enhanced financial strength with the flexibility and resources to efficiently capitalize on the value creation opportunities ahead. While we won't be quantifying the impact until after the transaction is closed, we are highly energized by the opportunities in front of us to maximize value for shareholders.

In closing, our team is motivated and executing. As we look forward, our ability to create value will be enhanced in the coming years by our last-mile fulfillment opportunities with high-growth, high-quality, open-air, grocery-anchored shopping centers and mixed-use properties that will enable us to realize substantial operating benefits.

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

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

Good morning and thank you, Conor. As the recovery from the pandemic continues to take shape and the essential nature of our open-air shopping center location become more apparent, the capital flowing to the space also continues to significantly increase. A well-capitalized private equity investor recently told me, there's only so much sub 4% cap rate industrial and multifamily product we can buy. The risk adjusted return for high quality retail product has become increasingly evident.

We have seen this sentiment play out in the transactions market this quarter and the momentum continues to build. We have seen it on portfolios and one-off centers alike. Leasing velocity and renewal rates have given investors confidence in both the stability and future upside of existing cash flows and rent rolls. With capital abundant on both the equity and debt side and with interest rates declining even lower recently, a very accommodative environment for deal flow exists. This includes our recently closed grocery portfolio in the Philadelphia MSA, a diversified portfolio of retail assets in Phoenix, one-off grocery deals in South Florida, New Jersey and several in Southern California and Atlanta to give a few examples.

As we see brokers starting to report results, it is clear 2021 is on track to be one of the highest production years for the industry. There is no question that appetite for open-air retail is voracious. We continue to be opportunistic yet selective and disciplined in the investments we make. In the second quarter, as an addition to our structured investments program, we invested approximately $55 million in a preferred equity position into The Rim, a dominant retail, entertainment and mixed-use district having over 1 million square feet of GLA located in the fast growing San Antonio market.

The property has consistently been the number one most heavily trafficked center in all of Texas with exceptional tenant sales to support the property. We are extremely excited for the upside of this investment, which was made at an attractive current yield and reasonable basis along with the right of first refusal to buy the center in the future.

Another recent success is the sale of a two – of two Rite Aid California-based distribution centers closed in the second quarter that were acquired by our taxable REIT subsidiary earlier this year in a sale leaseback transaction. When we completed the sale of these two properties at a price of $108 million, it represented a significant increase from the $84 million paid just five months earlier and generated a 72% IRR for Kimco on this investment.

As we carefully consider capital allocation and disciplined investment opportunities, we believe that selective acquisitions, structured investments, and partnership buyouts will continue to present themselves at the appropriate times.

Now to Glenn for the financial results for the quarter.

Glenn Gary Cohen

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

Thanks, Ross, and good morning. Our solid second quarter growth is fueled by continued improvement in rent collections, lower credit loss, and very strong same-site NOI. Our strong leasing efforts combined with an improving economy produced a sequential uptick in occupancy and another quarter of positive leasing spreads. In addition, as EBITDA has increased, our debt metrics have also improved.

Now for some details on second quarter results. NAREIT FFO was $148.8 million or $0.34 per diluted share for the second quarter 2021, which includes merger-related charges of $3.2 million or $0.01 per diluted share in connection with the anticipated merger with Weingarten. This compares to $103.5 million or $0.24 per diluted share for the second quarter of the prior year.

The significant growth was mainly driven by increased pro-rata NOI of $44.7 million comprised of lower credit loss from potentially uncollectable accounts and straight-line rents of $50.9 million and higher lease termination income of $2.7 million. These increases were offset by lower minimum rents and reduced TAM and real estate tax recoveries due to lower occupancy compared to the same quarter last year.

The improvement in credit loss is attributable to our increased cash collections as we are approaching pre-pandemic rent collection levels. During the second quarter, we collected over 96% of pro-rata base rents billed. We also collected over 77% of rents due from cash basis tenants during the second quarter, up from 70% collected in the first quarter.

Further, collections of prior period amounts from cash basis tenants totaled $7 million during the second quarter of 2021 versus $1.8 million collected during the same period in 2020. Our cash basis tenants comprise 8.8% of total annualized based rents. In addition, we collected almost 90% of the deferred rents billed during the second quarter. At the end of June, we have approximately $25.4 million of deferred rents which remain to be billed over the next 12 months, and 64% of this amount is reserved.

As Conor mentioned, the operating portfolio delivered significant improvement in the second quarter with a sequential increase in occupancy and positive leasing spreads. Our same-site NOI growth including redevelopments was 16.7% including a 30-basis point uplift from [indiscernible] (00:14:17). This is the first positive quarter of same-site NOI growth since first quarter 2020 and should be the start of a recurring trend.

Another positive indicator is the increase in the spread of lease versus economic occupancy which now stands at approximately 300 basis points, up from 230 basis points last quarter and represents $33.4 million of pro rata ABR. This spread bodes well for future cash flow growth.

Turning to the balance sheet. At the end of the second quarter, consolidated net debt to EBITDA was 6.3 times. On a look through basis including pro rata share of JV debt and pro rata – and preferred stock outstanding, the metric was 7.1 times. These metrics are better than the pre-pandemic levels at the end of 2019.

From a liquidity standpoint, we ended the second quarter with over $230 million of cash and full availability on our $2-billion revolving credit facility. We will be using cash on hand and a portion of the revolver to fund the cash component of the Weingarten merger consideration and transaction costs. In addition, our Albertsons marketable security investment was valued at close to $800 million at the end of June and there are no plans to monetize any portion of this investment during 2021.

During the second quarter, we repaid $120 million of mortgage debt unencumbering an additional 23 assets. We have no consolidated debt maturing for the balance of the year, and our next bond maturity is not until November of 2022. Our weighted average consolidated debt maturity profile stands at 10.7 years, one of the longest in the REIT industry. As for JV debt, we have only $53 million maturing for the remainder of the year with refinancing alternatives already identified.

With respect to outlook for the balance of the year, based on our first half 2021 operating results and expectations that include ongoing improvement in credit loss and same-site NOI growth, we are again raising our NAREIT FFO per share guidance range to $1.29 to $1.33 from the previous range of $1.22 to $1.26.

This new range is presented on a standalone basis and does not incorporate any impact of the pending merger with Weingarten other than the $3.2 million or $0.01 per diluted share of merger related charges incurred during the second quarter 2021. Assuming the merger is completed during the third quarter as anticipated, we will provide updated guidance on a combined basis on our next earnings call.

Lastly, with respect to our common dividend, shortly after the merger is completed, the board of directors expect to declare a regular quarterly cash dividend which will be payable during the third quarter. And now, we'll be ready to take your questions.

David F. Bujnicki

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

We've been advised to keep this call focused on Kimco's second quarter results and the outlook as a standalone company. More information will be forthcoming once this transaction closes which we anticipate will be shortly after the completion of the respective meetings of stockholders, which is on August 3.

In terms of the Q&A, we want to make this an efficient process. You may ask a question with an additional follow-up. If you have additional questions, you're more than welcome to rejoin the queue. Tom, you could take the first caller.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Craig Schmidt with Bank of America. Please go ahead.

Craig Schmidt
Analyst, BofA Securities, Inc.

Q

Thank you. Obviously enjoying the improved results, but I just – I want to know if the recent spike in COVID-19 cases and some of the breakthrough cases are giving any of your tenants or retailers hesitancy regarding longer term leasing decisions.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. Craig, it's a great question. Obviously, top of mind for all of us right now. The Delta variant, as we know, is running across the country, but we haven't seen any meaningful change in terms of their outlook or views. Right now, obviously, all markets are open and a lot of lessons have been learned over the last 16 months of how people have adapted to sort of a new normal and how you shop and access those retailers. And the retailers themselves, as evidenced by our occupancy gains this quarter, continue to look for new opportunities to expand as they prepare for the new normal within 2021, 2022 and 2023.

Craig Schmidt
Analyst, BofA Securities, Inc.

Q

Great. And then, a follow-up question. It's probably for Ross. Regarding the increased transaction market, neighborhood community, lifestyle, or power centers, which are you seeing the biggest pickup in activity and transaction, and which are you seeing the lowest rise in transactions?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. I mean, there's no doubt that grocery-anchored infill shopping centers are very much in demand right now. As I mentioned in the prepared remarks, I mean you think about the risk adjusted return spread on high quality grocery-anchored centers in the high 4s and the low 5s and you're still getting a good 125-basis point spread compared to some of the other asset classes. So, we're starting to see a lot of both private and some of our public peers getting much more aggressive on that product side. And we think that will just continue.

We are seeing more activity on power and lifestyle. There's not as much that we've seen transact as of yet. But with the improvement in the economy, with the improvement in the retailer sales, we are seeing much more conviction on some of those categories that you see in lifestyle centers such as restaurants, entertainment, fitness really coming back and solidifying themselves. So, I think that there's just a lot of demand for all product types right now with an open-air retail.

Craig Schmidt
Analyst, BofA Securities, Inc.

Q

Okay. Thank you.

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

Juan C. Sanabria
Analyst, BMO Capital Markets

Q

Hi. Good morning. Just hoping you could spend a little time talking about the assumptions behind collections of past due rents and door reversals of bad debt for the balance of the year. And if you could just go over what was in the second quarter as the numbers you went through in your prepared remarks were pretty quick-paced.

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

So, in terms of what – we collected $7 million from our tenants, our cash basis tenants from the prior periods during the second quarter. As in terms of the outlook for the balance of the year, again it's still going to be a wait-and-see how it all goes, but collections as I've mentioned have improved. We collected close to 96% of our base rents. We collected 77% of the cash basis tenants that were billed during the quarter. So, we're going to have to wait and see though for the balance of the year.

We do have in the guidance, there is credit loss that's built into the numbers. The low end has still has about $20 million of credit loss built in. The high end of our range has about $5 million. So based on where things are today, we're more comfortable when we look at our guidance towards the upper end of the range.

David F. Bujnicki
Senior Vice President-Investor Relations & Strategy, Kimco Realty Corp.

A

Is there a follow-up, Juan, or we could go the next caller?

Juan C. Sanabria
Analyst, BMO Capital Markets

Q

I apologize, I was on mute, surprise, surprise. Just if you could give a little color on Dania in how leasing is tracking there for the small shop space and where the demand is coming from and how you're feeling about your underwriting there? Thank you.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. And we actually feel very good about the direction that Dania is going with the new openings earlier this year with Urban Outfitters, Anthropologie. Later this summer we have several other new openings there on the horizon, you have American Eagle towards the end of the year, Regal, the other two Marriott flag hotels that will be opening this fall as well as including some of the additional restaurant spaces. So, there's tremendous change in growth that's coming from Dania as we start to get these other retailers open and we have Sprouts that's scheduled to open towards November, December of this year as well.

Then, followed by that obviously is a strong leasing demand as the economies have started to recover and people have really appreciated the location of this site along I-95 and all the growth that's happening in Fort Lauderdale market. We're very encouraged by the direction of Dania long term.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

So, the only point I'd add is Spirit Airlines is in for permit in their piece of the project which is their headquarters. That I think should be a nice component of the Live, Work, Play environment that we're building there.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

And I'll add one on top of that of Conor's and it's the second residential tower is also in permit and ready to break ground shortly.

Juan C. Sanabria
Analyst, BMO Capital Markets
Q

Thank you.

Operator: The next question comes from Rich Hill with Morgan Stanley. Please go ahead.

Richard Hill
Analyst, Morgan Stanley & Co. LLC
Q

Hey. Good morning, guys. I want to come back to occupancy for a second. By all indications and I think your prepared remarks support this, the leasing market feels pretty good. But I think a lot of the recovery depends upon how long it takes to get occupancy back to normal. I think your peak, prior to COVID and correct me if I'm wrong, was just a little bit higher than 96%. So, while the trends look really good, I'm wondering if you can just comment on the path to getting back to pre-COVID levels. How long do you think that takes and what does that mean for a recovery in total NOI? Is that still a mid-2023 event or do you think, after this quarter, that's pulled forward to maybe late 2022?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

Yeah. It's a great question. Well, the path is really dependent on demand. So, I think you have to start there and understand where the retailers are today and what we anticipate going forward. I think for a few reasons, we'll continue to see that this demand stay pace from where – or maintain pace from what we've seen in the last two quarters.

One, you still are – the retailer, they're still working through – they're open to buy numbers that they're trying to achieve in 2020 and now in 2021. So, there's a bit of a bottleneck there that they're actively trying to expand and upgrade the quality of their portfolio a A-quality sites with the new supply that's obviously come online, not the new supply but the vacancy as a result of the pandemic. That has given them the opportunity.

Second to that, other retailers were able to raise additional capital or right size their balance sheets through the pandemic. So, when you look at grocers such as Fresh Market that may have not been necessarily on an expansion mode pre-pandemic they are now starting to look at new stores and new locations to add grocery in new markets. So, you now have some new demand drivers on top of the pent-up demand from the existing retailers.

And then third, you have others that are really testing new formats. We've learned so much in the last 16 months of how consumers respond to retailers, how they want to shop. And so, you have retailers like Container Store that have been fairly set in their way about their store format but now looking at smaller formats and penetrating other markets as well. So, you'll continue to see that as a demand factor.

And then new concepts. New concepts like choice markets which is trying to reinvent the C-store and adapt to more millennial trends. DoorDash has come out with DashMart. And so, you're starting to add some new categories on top of what we've historically seen. So, I think as long as you maintain those demand drivers, we'll be able to make good progress in recovering our occupancy and get back to what was our peak.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

Rich, the only thing I would add is just the Kimco differentiator I think is, our team obviously first and foremost but then we've optimized the entire portfolio with the curbside pickup program. And I think retailers are really resonating with that program. They've come to us and said it's best in class. They want to do more sites with us. And I think when you combine that with our team, it leads us to believe that the occupancy is going to continue to trend in the right direction.

Now, we might see a pause next quarter because of some of the eviction moratoriums that are burning off. But we think there's enough demand obviously there to back fill that. And it's led by the anchors and then we think that's going to follow with the small shops. The anchor, the demand is diverse which is great to see and then the small shops should follow along after that.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And, Conor, just to push a little bit more on this. What I'm trying to get at is the trough just higher than what we anticipated but the endpoint is the same. And if I'm looking at sort of your prepared remarks and your press release where you talk about maybe stronger portfolio occupancy gains than what you were previously anticipating, that leads me to believe that the trough is higher but the recovery is also a little bit steeper.

So, if I can push [ph] here just a (00:28:19) little bit and I am sorry for putting words in your mouth, but I think you've said mid-2023 for recovery in the past. Do you feel better about that recovery endpoint post 2Q or is 2Q just a sugar high that leads to a higher trough?

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

Really obviously, Richard, it's hard to predict the future especially with the Delta variant out there. But what we've seen so far is the demand is not subsiding. I think that that timeline still holds true. And I think we've got to, obviously, execute and let the numbers speak for themselves.

And right now at this quarter, it's not a sugar high quarter. We see the backup of pent-up demand occurring through the leasing pipeline that we've built up and believe that we can continue the momentum. But clearly, there's a lot of various factors out there that we can't anticipate the future with. But right now where we sit, we'd like what we see.

Richard Hill
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great, guys. Nice quarter. Thank you for the additional color. That's it for me.

Operator: The next 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. Rent spreads on new leases accelerated further during the period, how much pricing power do you have right now? And can that continue to accelerate from here?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. So, leasing spreads are always [ph] quarter dependent (00:29:46) about the population that's within that on any given quarter. But the supply demand balance right now where retailers are really looking to upgrade the quality of their portfolio, our efforts to right size our portfolio to make sure that we really own A-quality assets enables us to maintain that supply demand balance. And so, we're able to push rents on the below market leases that we have.

And when you look at the lease expiration schedule that's on the horizon in the next couple years, there's still – those leases and those rents are below what our corporate average is right now. So, we still see that there's opportunity to push those rents further as those leases roll.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah. The demand for last mile retail has just come roaring back. And when you look at some of the tidbits that we're hearing from tenants that are typically, I would say, penny pinching that are saying that they'll pay off for the locations that fit their needs. Clearly, the supply and demand dynamic is shifted in our favor. And with no new supply on the horizon, we do feel like we're going to have pricing power continue in our favor.

Michael Goldsmith
Analyst, UBS Securities LLC

Q

That's really helpful. And as a follow-up, when retailers are looking to expand, what are they looking for specifically in their new locations? Are they focused on certain geographies? Are they focused more on first-ring suburbs or maybe more suburban areas? Like how does the expansion look and where are you seeing that demand?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. It's retailer dependent based on their corporate strategy. So, it's what are the voids that they see in their program and how are they trying to fill it. For example, you could have a grocery store that has either modified their formats [indiscernible] (00:31:36) couple years ago between 30,000 square feet, now down around 22,000 to 24,000 square foot range. So, they're looking at new box opportunities that are more prototypical to what historically they targeted.

While others are looking to potentially expand the box to incorporate more last mile distribution that Conor mentioned earlier or some other form of fulfillment. The first-ring suburb that's really where we're focused. And obviously there has been a huge value add in being closest to the customer and where they live. And now with – through what the world will look like with the hybrid back to work model, there's definitely much more of a balance between urban and first-ring suburban markets. And so, we'll continue to see that demand pick up on the first-ring suburbs.

So, it's a really hard answer to give that, that's specific in one general – in one specific way because every retailer's looking at it a little bit differently based on historically what they've done and where they see these voids and how they want to achieve that.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.
A

Yeah. The retailers today have more data on their customer than they've ever had before. And so, really where they're focused is how they best serve that customer. And now with the data that they have of how important that last mile store is to not only the four wall but the actual halo effect of buy online pickup in store, curbside pickup, the ease of returns, a lot of the feedback that we're getting from our retailers is the spaces that we may have passed on before, we want to look at again.

And I think that's sort of the tidbits that we're taking away from this is, there's a lot of pent-up demand. There's a lot of voids that need to be filled. And last mile retail has become more valuable due to the pandemic.

Michael Goldsmith
Analyst, UBS Securities LLC
Q

Appreciate it. Good luck in the back half.

David F. Bujnicki
Senior Vice President-Investor Relations & Strategy, Kimco Realty Corp.
A

Next caller?

Operator: The next question comes from Katy McConnell with Citi. Please go ahead.

Katy McConnell
Analyst, Citigroup Global Markets, Inc.
Q

Great. Thanks. Good morning, everyone. So, wondering if you can provide a little more background on the Rite Aid transactions and the market dynamics that led to the quick monetization of that investment?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

Sure. Yeah. I mean when we started the conversation with Rite Aid back in May of 2020. Obviously, it was a bit of a different environment. We stated publicly around that time that we were looking to be opportunistic. We felt that the balance sheet and our liquidity position enabled us to do that. So, we were fortunate enough to have those conversations directly with one of our retailers.

We felt very good about the leases that we were able to negotiate with them in terms of the rent versus market having annual increases that we felt were very attractive and obviously seeing the demand for single-tenant products particularly in the industrial space. We knew that there was a lot of value that was created on that acquisition.

So, we wanted to maintain as much flexibility as possible which was why we [ph] bought it into (00:34:39) the TRS. And the market spoke and, clearly, there was some good upside rather quickly that we wanted to capitalize and we were able to do that with the monetization of it. So, it was a bit of a unique transaction but we were excited about it, of course. And we'll continue to look for those diamonds in the rough where they come.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah. Katy, you know but others may not but this really falls into our Plus business which we believe is a real differentiator for Kimco. We focus on retailers that are real estate rich and have the ability to come in and hopefully unlock a lot of value for our shareholders through a differentiated strategy. So, it's one that is unique to Kimco. We're very proud of it. Obviously, we own a lot of Albertsons shares because of this strategy. And this is just another data point of why we think it's a nice differentiator for Kimco to unlock value from retailers that are real estate rich.

Katy McConnell
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. And then [indiscernible] (00:35:35) can you provide some more commentary around what you're seeing from an institutional capital perspective and the appetite to put capital to work [ph] in strips (00:35:44) today? And maybe touch on your appetite to monetize assets if approached by your capital partners for more JV deals today.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

I missed the beginning of the question. I'm sorry. Do you mind just repeating that?

Katy McConnell
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Just looking for some more commentary around what you're seeing from institutional capital and the demand capital to work [ph] in strips (00:36:07) today.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Sure. Yeah. I mean it's voracious, as I mentioned in the opening remarks. I mean, there is a significant amount of capital that was raised during this pandemic. Everybody was looking for distress. It really did not materialize. And now, what you're seeing is that a lot of that capital is really focused on core.

So, we're in a pretty unique position that there's a lot of investors that want to invest in retail but maybe lack the operational expertise. So, we are fielding a lot of questions, a lot of comments, a lot of inquiries from institutional capital that want to invest in retail, want to take advantage, see that there is clearly a need and utility of our open air space, but how do they actually go about investing in that. So, we're having a lot of those conversations. There's plenty of capital that's looking for it. And now, it's just being very selective as to where we put our capital and who we invest alongside.

That being said, there are other investors that have substantial legacy retail investments, many of which are not necessarily in open-air retail, that are looking to maybe reduce that exposure. And that also becomes an opportunity for us. If they're looking for what component of their retail investments are liquid in this market, it's clearly the open-air neighborhood grocery shopping centers that are attractive – are attracting a lot of capital that they know that they can monetize and we're there to discuss that with them as well.

Katy McConnell
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. Thanks.

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

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.

Q

Hey, good morning. So, just noticed that renewal lease volumes were down from last quarter but I assume that bucket is primarily driven by expiring leases and somewhat out of your control. Now that said, have you noticed any changes or trends with regard to tenant retention?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yes. So, Q1 you tend to have a higher renewal rate because that's when more leases roll over. So, you're spot on there. It's really related to the population on a given quarter about when their leases roll. But as it relates to retention trends, they've been very strong. And people that have – retailers that have made it through the pandemic at this point I think feel good about the position they're in.

For us, as Conor mentioned earlier with curbside, we've done an extraordinary amount in working with our tenants and trying to provide a true Kimco advantage to be a retail partner within a Kimco center. And I think what retailers have come to learn is that your landlord matters. If you're well capitalized, you have vision, you're willing to test, experiment, and be a true partner and good steward of not only the retailer, but of the community itself. It makes a big, big difference.

For a lot of these small shops, this is their livelihood and they're investing a tremendous amount of sweat equity and their own money into the business. And so, they want to make sure that whoever they're aligned with is also in partnership with them. I think that has been a big eye opening experience for a lot of those retailers. So, that has definitely helped us with retention levels.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.

Q

So, that maintains retention then or is it increased like versus pre-pandemic?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Well, I think our renewals have always been quite strong. And so, I think it's sustaining and improving.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.

Q

Okay. Thanks.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah, Greg, I think most retailers today are looking at their spaces and recognizing that the leases might be below market and it might be very difficult to replace that location. So, retention rates are high. We feel like we're confident in the portfolio and knowing the supply and demand dynamic. We don't see that changing.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.
Q

Okay. Thanks. And then Juan partially covered this question earlier. But Glenn, just curious how you're thinking about switching tenants back to accrual-based accounting. Are you kind of waiting to see what happens with the potential rising COVID cases right now or could we start to see some of those reversals?

Kathleen Thayer
Vice President-Corporate Accounting, Kimco Realty Corp.
A

Hi, Greg. It's Kathleen. I shall take this one for you.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.
Q

Okay.

Kathleen Thayer
Vice President-Corporate Accounting, Kimco Realty Corp.
A

So, you're right. There's always the thought of what's to come with the pandemic. And as you probably know, cash basis isn't the kind of category where tenants can pop in and out of it from a GAAP perspective. So, there's criteria that you need to set. So, generally, we look to see that the tenant remains current on their base rent for six to nine months. And so, we'll continue to monitor that trend. I do anticipate that in the second half of the year, there will be some of our tenants that make up that 8.8% of ABR that Glenn mentioned that will be coming out of cash basis.

But just something to keep in mind when thinking about that and just because a tenant comes out of cash basis, obviously, as I said, they need to be current on their rent. So, the impact that you're going to see on credit loss is very minimal, right, because they're actually paying. Where you may see some sort of FFO impact is really on the straight line side which although I wish that was cash, it's not, but there could be an FFO impact on that.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.
Q

Thank you so much for the clarity.

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

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC
Q

Hi. Good morning. In the beginning in the prepared remarks I think you touched briefly on the redevelopment opportunity that Kimco has. So, I was wondering if you could give more detail on kind of the depth of that opportunity. And I know you're working on a number of large mixed use projects but even just the smaller ones. How much of that activity do you expect you could complete each year and the types of projects that are most appealing?

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.
A

Sure. Hey, Caitlin. So, on the on the redevelopment side we continue to see a lot of opportunity. We continue to look for what's the highest best use of our real estate. And what we have seen is we've been averaging around 700 to 1,000 multifamily units a year of entitlements. And so, we continue to think that's a great use of our sweat equity to create opportunity for future value creation on the asset and then activate that at our – when it's the best time to do so.

On the smaller redevelopment side, clearly, those are ones we get our – the best bang for our buck where we're on average returning over 10% on invested capital. So, we continue to monitor and mine the portfolio for those. Typically, it's adding a pad out in front with a drive-through or expanding a shopping center in some way, shape or form. And those continue to be right around I would say between $80 million to $100 million a year of capital investment.

Now, we'd love to do more of that. Clearly, it's the – some great returns on capital and we'll continue to try and look for those opportunities going forward. And then, on the larger scale redevelopment projects, we continue to look through our portfolio and say what's the best way to activate these projects and we want to be mindful of the fact that we have a lot of opportunities, but there's different ways to structure those opportunities.

And so, you've seen us do it in the past where we've sold entitlements, typically, office entitlements. We've ground these entitlements. Those sometimes are multifamily projects where we've joint ventured and done projects that add a nice Live, Work, Play experience to the shopping centers. So, we'll continue to do that. As you know, we have done a lot of work on entitlements already. We're up to 5,000 apartment units entitled and continue to think that's a great use of our time and effort going forward.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Just to clarify, you mentioned on the smaller ones, was that $80 million to $100 million per year?

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

That's correct.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then, maybe a question just on leasing volume. You guys pointed out that for the second quarter, historically, Q2 2021 was 11% higher than that historical level. So, was just wondering if you expect the above historical average leasing activity could continue through like mid-2023 as occupancy comes back or do you think the current strength is more of that like a quick bounce back and then, it could [ph] slow to (00:44:36) more historical levels.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. I mean, obviously, when you hit a peak, it's a peak, right. I mean, we've never achieved that level. So, yeah, we're very proud of that effort in Q2. To meet or exceed that on any given quarter is obviously a big effort. And so, we'd anticipated probably being a little bit less. But with the demand side, as we've mentioned earlier in some of our other remarks, it's very, very strong, so we still anticipate good growth over the next year-and-a-half to two years with retail demand in place.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah. Caitlin, I think the way we continue to think about it is you'll anchors lead the way until it hits that sort of historical high occupancy levels. And then once that hits that, you'll hope – you'll see that the small shops actually start to pick up the slack. And so, that's the way we think about it. Typically, the small shops around an anchor lease up once the anchor has been leased and so that's what we continue to think will play out.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thanks.

Operator: The next question comes from Alexander Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Good morning, morning out there. So, two questions. First on the cap rate side. You guys did the pref deal in San Antonio. And just curious, as you guys see the acquisition market, are you seeing sellers maybe reluctant to sell because either they want to stabilize their NOI or they view the cap rates [indiscernible] (00:46:17) in which case we should expect to see more sort of partial investments like pref deals or JV stakes with the option to buy out eventually? Or do you see that sellers are willing to just out right transact even though there's a view that fundamentals are getting better and that cap rates are going to continue to compress?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. I think it's – every circumstance is a little bit different. So, as evidenced by the amount of transactions that occurred, there are plenty of owners that are willing and have been executing on dispositions. They see that the market continues to work in their favor, the financeability of these assets has never been greater with interest rates where they are. So, it is a very good time if you're a seller to take advantage of all-time low interest rates and thus cap rates.

At the same time, there is an opportunity for owners that have the capital and the financial wherewithal to reinvest in assets to try to stabilize cash flows if they were beat down a little bit during the COVID depending on what type of tenancy they had. So, you're seeing certain decisions potentially being delayed for a period of time. And you always have to compete with the opportunity for an owner to refinance their asset because, as I mentioned, the financeability of those assets is very much available.

So, every circumstance is unique. But we're finding plenty of opportunities. We do think that we'll continue to see structured investments with the preferred equity and the mezz financing present themselves. We'll continue to be very disciplined and only look to invest in those assets where we feel very good about the basis, our current return, and then of course it has to check the box as to an asset that we would potentially look to own in the future. And that's where we secure our right of first refusal or right of first offer.

So, we've intentionally not put out any sort of mandate on the amount that we're going to invest in that program. But to the extent that those opportunities present themselves, we're ready and excited to do that.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And the next one is for – oh, sorry. Go.

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

No. Go ahead, Alex.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay, thanks. Sorry. Next question is for Glenn. Just sorry for all the confusion. I didn't go to CPA school, so, apologize on accounts receivable and reserved rents. But big picture, you're collecting north of 96% of the rents and yet you have 51% of your AR reserved.

So, big picture, what it sounds like is that basically almost all your tenants are healthy, operating. It's just a matter of when you can get paid up for past bills and then that comes down to I guess either a payment plan or if you guys are going to say, look, for a tenant who just doesn't have the wherewithal to pay the back stuff, just wash that clean, pay the rent going forward. So, just trying to reconcile sort of north of 96% in collected but you have 50% reserved.

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

It's a good question, Alex. To help you a little bit. 36% of it, of the AR is are the cash basis tenants that haven't paid yet. So, a big portion of the reserve is really related to the cash basis tenants. The other portion of the reserve just comes down to timing and our own policies around [ph] payment and tax bills (00:49:53) and disputes. So, those are really the two big pieces that make up what the reserve is.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

So, the 36% of AR, that is [ph] part of that little 4% (00:50:10) of rents that hasn't been collected?

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

Well, again, when you look at total AR, it's a combination month-after-month of what hasn't been collected. Some of it is fully reserved. Remember, all cash basis tenants that haven't paid, they're 100% reserved. So, it's a buildup of total.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Right. But basically, some of those tenants are still in the portfolio, they may be paying you now. So, I mean, when you say 96% collected in the second quarter that includes cash [ph] cash basis tenants (00:50:46). That's what I'm just trying to understand.

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

Yes. That includes the cash basis tenants that paid. So, as we mentioned, 8.8% of the tenants or the ABR that we have is on a cash basis. Of that amount, 77% of those tenants paid during the quarter. There was about – I think the numbers, I think it was about $9 million that wasn't paid by those cash basis tenants during the quarter. And they are fully reserved in the number.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. So, that's the 36% in other words?

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

In total – when you look at the total AR number, 36% is related to cash basis tenants. So, we're still accruing them, they're just fully reserved.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay.

Kathleen Thayer
Vice President-Corporate Accounting, Kimco Realty Corp.

A

Alex, but how – that 36% is a cumulative number. So, during – when COVID was really high back in Q2 and Q3 of 2020, that AR wasn't at the 96%. Still in the high 80s. So that balance is still sitting in that AR. So, you're putting a reserve on that old balance as well. And then to your point, that [indiscernible] (00:52:00) continues to get a reserve on it.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. Awesome. Awesome. Listen, thank you very much.

Operator: 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. I just have a question on when do you think paying occupancy will bottom and how much of an impact will the eviction moratoriums have on occupancy? And then one last one there would be you still have a lot of abatements, about $5 million, when will those start to burn off?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yes. Sorry. I just missed the very first part of that. It was a word and then occupancy.

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

Q

Oh. Yeah. I'm looking for – yeah, paying occupancy. When do you think that will bottom? I understand that you have some people that may still be in the occupancy number but there could be an eviction moratorium.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

Got it. Got it.

Wes Golladay
Analyst, Robert W. Baird & Co., Inc.
Q

Just kind of quantify the impact of that in the financial.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

Yeah. Sure. I mean at this point, the impact of that should be fairly small, nothing material. There are obviously moratoriums on the West Coast that are still in place that I believe California lifts towards the end of September. So, we would anticipate that there is some modest impact to that but nothing that would be too meaningful on a go-forward basis.

And what was the second question – second part of your question?

Wes Golladay
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah. The second one was regarding the abatements. You still have some abatements running through the numbers. Just seeing when those will end.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

Yeah. We anticipate that those will start to trail through Q3 and Q4. I mean as we've gone through the majority of the impacts of the pandemic at this point.

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.
A

Yeah. Just to give you a little bit further color. The abatements that we booked during the quarter were $5 million but only about $2 million of that related to second quarter rents. So, to Dave's point, it's really starting to whittle down and we expect it to be lower as we go through the balance of the year.

Wes Golladay
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. Got you. Thanks for the color on that. And then I guess one more big picture question. Do you have a sense of what percent of the new leasing is being driven by demand that emerged during the pandemic such as the last mile, the first-ring suburb? And is it more concentrated in shops or anchors at the moment?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

Well, our demand [indiscernible] (00:54:13) the occupancy of the anchors. You could see it more on the demand side with the anchors, which was anticipated. They usually have a quicker recovery rate then will be trailed by the small shops. It's really hard to narrow it down to whether or not it was – it's a result of one specific category of last mile distribution and pandemic demand versus general growth and revision or adjustment to their retail strategy.

But it's really a combination of all these things, referencing back to a few of the points I made earlier between identifying lessons learned to historic growth opportunities to expansion in new markets [indiscernible] (00:54:55) culminate higher demand.

Wes Golladay
Analyst, Robert W. Baird & Co., Inc.
Q

Got it. Thanks, everyone.

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

Haendel St. Juste
Analyst, Mizuho Securities USA LLC
Q

Hey, thank you. So, appreciate the comments earlier about your desire to pursue more preferred investments as they present themselves, but I haven't heard any mention of the returns there. So, maybe can you share more on the return on the investment in that – The Rim asset, the $55 million there? What are the returns you're targeting there and how do they compare versus comparable asset quality acquisition deals? Thanks.

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.
A

Sure. Yeah. And each deal obviously is an individual negotiation. But I would say from a more macro level, the difference between preferred and mezzanine. In the preferred investments, we typically look for a high single-digit current return on our investment, but we do participate in the back end profit. Assuming that the asset performs the way that we've underwritten, there's usually back end participation that conduce that return somewhere into the teens from an IRR perspective. On the mezzanine financing, oftentimes those are higher coupons but don't necessarily have the back end participation. So we're getting double digits current or sometimes even into the teens. But it very much depends on each asset.

As it relates to The Rim, that one is a preferred equity investment. So, like I said, we got very high single digits current. But when we look at the opportunity on that asset and some of the things that we think can occur in terms of occupancy increases and maybe some repositioning and just the general strength of that asset in the market, we think that we will – we'll certainly see some participation on the profit on the back end. So typically looking for at a minimum teens IRR.

Haendel St. Juste
Analyst, Mizuho Securities USA LLC
Q

Great, great. That's helpful. Appreciate that. And just going back to Albertsons for a second. I'm curious – I understand there's no need to tap into the stock here given the lack of near term debt maturities, the liquidity you talked about before. But I guess I'm curious under what scenarios that thinking could change? Are you waiting more for opportunistic deals to perhaps fall on your lap? Or is it waiting maybe another year or two as you start to approach some of those debt maturities? Just curious as you have this liquidity how the available options that you're considering could perhaps drive a change in thinking there. Thanks.

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.
A

Fair enough. It's a great question, Haendel. I mean the good part as you point out is there is very little in terms of debt maturities in the near term. So, there's no emergency or real need necessarily today to monetize it. Two, we still have to manage our REIT taxable income position. The good news is the – and I think we've talked about this previously. The built-in gain actually burns off next month so the federal income tax piece of it will no longer be an issue. But we still have to manage our REIT taxable income.

In addition, there still are certain lockups related to our investment with our partners. So, in order to monetize it today, we would need – it would be subject to a marketed sale in agreement with the rest of our partners. Come June of 2022, there are no further restrictions on the investment and then we'll also – and when we look into 2022, we know we have two preferreds that are callable, we have a bond that will come due. So, there's lots of opportunities to use that capital to further deleverage the balance sheet.

Haendel St. Juste
Analyst, Mizuho Securities USA LLC

Q

Got it. Got it. Thanks, guys. It sounds like it's more of a 2022 event at this point based on what you're looking at. Okay. Thank you.

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

Sure.

Operator: The next question come from Floris van Dijkum with Compass Point. Please go ahead.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC

Q

Thanks, guys. A quick – I guess, a follow-up question on – in terms of cap rates. I understand [indiscernible] (00:59:17) there's big institutional portfolio from Bentall Kennedy. I think it's just trading or about to trade, $800 million price tag, sub-5.5 cap rates from market sources. As you look at – obviously, Weingarten you're buying at a higher cap rates. Do you think there's the disconnect between private and public real estate? Can you maybe give us some comments on that? Also what kind of implied cap rates are you valuing The Rim transaction at?

And maybe you mentioned something else about JVs. Obviously, you know your JV assets better than others. As you look forward, is there an opportunity to buy out JV stakes in your portfolio and for that matter in the Weingarten portfolio, which has I think something like 39 or 31 or somewhere in that neighborhood of JV assets, and if you can comment on that? And do you have provisions in there whether you have the right of first offer in your JVs typically?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Sure. I'm happy to address some of that. And I'm going to kind of keep it at a high level rather than comment directly on the Weingarten specific questions. But there's no doubt that we think that there's still a disconnect between public and private pricing. When we look at NAVs of ourselves and some other peers versus, like you said, some of the transactions that are happening in the low-5s and we're also starting to see them dipping into the high-4s. There is still very much a spread between those two.

But the BentallGreenOak portfolio, very high-quality, grocery-anchored products and was not surprising to see a very strong demand and many bidders and multiple rounds of bidding before that deal was ultimately awarded. And I think we're going to continue to see more of that.

In terms of partnership buyouts, I mean that is something that we have taken advantage of in the past. Oftentimes, it's difficult to model or forecast or predict when those opportunities present themselves. All of our partners have different investment horizons and reasons for why they may look to exit, but we do stay ready. We stay in very close communication with our partners and we have a pretty good sense as to when they may look to exit or what might trigger that. And as I mentioned in the prepared remarks, we do think that there's going to be some of that in the relatively near future.

And as it relates to our ability to have sort of a right of first offer, right of first refusal, there's no doubt that for these assets that we're managing and that we're operating day in and day out, we are the logical buyer. We can move quicker than any other third party can given the fact that we know the assets inside and out. So, typically, it's a win-win if it's an asset that we view as a long-term hold and for one reason or another our partner is looking to exit. It's a great chance for us to buy out the remainder and for our partners to have a very smooth and quick execution. So, again, we'll see more of that as time goes on over the next year or so.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC

Q

Thanks, Ross. Maybe – but do you see anything imminent happening in any of these potentially in your JVs over the next 12 months?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

I think that's very possible.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC

Q

Right. Thanks.

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 guidance. So, it looks like ex the Weingarten charge, the midpoint of guidance went up around $0.08. I'm assuming about $0.02 of that is tied to the prior period collections. But can you walk through the major components of that increase?

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

Sure, Mike. The bulk of it really is coming from just the improvement in credit loss. That's really – that is really the driver. So, we had credit loss built in in our guidance all along. Credit loss in total including the impact on straight-line rents for the quarter was about $800,000 versus what we had in budgeting. So, the bulk of it really is coming from credit loss improvement. That's the driver.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Got it. Okay. That was it. Thank you.

Operator: The next question comes from Chris Lucas with Capital One. Please go ahead.

Chris Lucas
Analyst, Capital One Securities, Inc.

Q

Good morning, everybody. Hey. Just two follow-up questions. Glenn, just going back to the guidance as it relates to the bad debt number you provided earlier of a range of $5 million to $20 million for the back half of the year, are there any offsets to that? Meaning like prior period rent or deferral payments that are included in that sort of – that offset that number or is that a gross number?

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

No. It's all built in to that, Chris. We've been – as we mentioned, we collected $7 million of rents from prior periods. But also during the current quarter, there are cash basis tenants that didn't pay. So that as I mentioned, we collected 77% from the cash basis tenants [indiscernible] (01:04:45) 23% was not collected. So, we'll have to see how that goes during the third and fourth quarters.

But the expectation in guidance is that at the high end of our range, we would incur a total of about $5 million of credit loss. And towards the lower end of the range, it could be as much as $20 million. But again, based on where things are headed today, we feel more comfortable towards the upper end of the range.

Chris Lucas
Analyst, Capital One Securities, Inc.

Q

Okay. And then just on the move from cash to accrual on the straight-line impact that was mentioned earlier as a possible tailwind. Is that – do you have an assumption built in on that as it relates to your guidance as well?

Glenn Gary Cohen
Chief Financial Officer, Treasurer & Executive Vice President, Kimco Realty Corp.

A

That, no. We really haven't because we haven't – to-date, we really don't know exactly who we're going to move and when we're going to move them. So, we have not built that in. So, should we start moving some in in the straight-line, there would be some uplift from straight-line rent.

Chris Lucas
Analyst, Capital One Securities, Inc.

Q

Okay. And then last question from me. Conor, you've talked about the tenant demand. And I guess I'm just trying to think through the whole process of how much insight you have, how much sort of visibility you have in terms of demand. Given that – I'm assuming that retailers are making their open to buys this year for store openings in 2023, 2024. And given what you're hearing from them, what's your confidence level that this demand remains as strong as it has been so far first half of 2021?

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah. That's right, Chris. We have – since we've been virtual for most of this pandemic, we've been able to do more virtual portfolio reviews and talk with more tenants on the regular on expansion plans and looking for space throughout the portfolio. One thing – you're right about the cadence there. But one thing we've found is that many of our retailers that are well-capitalized have actually come to us and say, hey, we actually need a few more deals for this year or we need- so, there's actually a bit of that going on as well.

So, it's broad based, which I like to see. Clearly, grocery continues to expand and is quite hot. But then you've got the other categories that we like to see that complement the cross shopping, which typically is led by off price and then you've got the home improvement, home goods sections. It continues to be very, very strong. And it goes on from there.

And the interesting part, I think, is the pent-up demand for probably the most impacted categories that we're seeing. So, the entertainment, the fitness, and the restaurant side of it have really come back strong faster than we anticipated and we think that that bodes well for the recovery of those sectors. And obviously, we're not out of the woods yet, as I mentioned in my prepared remarks and we want to be careful about how we talk about the future because we've still got the Delta variant that's causing a lot of issues.

But we have a playbook now. We have the Kimco branded curbside pickup program that's on the entire portfolio and we have a battle-tested team that I think can really manage through this. And the customer is more aware of how to go about utilizing last-mile retail in more ways than one. So, I think our portfolio is well-positioned to weather whatever storm comes our way.

Chris Lucas
Analyst, Capital One Securities, Inc.

Q

Thank you.

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

Linda Tsai
Analyst, Jefferies LLC

Q

Hi. Good morning. Based on your earlier comments, it seems like there's a pull forward of demand for core assets given the validation of necessity based in grocery-anchored retail and then still low interest rates. How does that impact your view on potentially increasing disposition activity in this favorable environment?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. It doesn't really move the needle for us in that regard. We look at the portfolio every day, every week. We look at where there's risk, where there's opportunity, where there's concern, where demographics may be shifting. And that's really what motivates our decision. The good news is that we've done a tremendous amount of heavy lifts over the last five to seven years to put the portfolio in the position that it's in.

And when you look at the numbers that we were able to put up this quarter, I think it speaks to the fact that the portfolio is in very good shape, is performing well, and we'll continue to prune here and there where we see specific assets that don't necessarily make sense from a long-term [ph] hold (01:09:19) scenario. But when we think of it from a macro level, it doesn't move our decision making and feeling very confident in the portfolio that we own there.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

And, Linda, I would just add that it's been – we're in a very fortunate position, right? We've gone through a massive transformation in the portfolio. We've derisked the portfolio. We've really – now we're at, I think, a sweet spot where we can look and see across the portfolio that's – what sites are flattish in terms of growth and use those for recycling capital. And they're not necessarily low quality because some of those might be single tenant type ground leases or some of those might be assets that we've squeezed all the juice out of. But we're in a very fortunate position to be where we are as our disposition strategy can be used for incremental growth.

Linda Tsai
Analyst, Jefferies LLC

Q

Thanks for that. And then when you think about last mile distribution, it seems like most retailers start with making changes within the four walls of their existing boxes to accommodate onsite fulfillment. That said, are you seeing more instances of retailers making physical changes to existing boxes vis-à-vis physical expansions?

Ross Cooper
President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah, it's either expansion or modification of utilizing the square footage within the four walls. Some examples are those that create a pick up point, obviously, in front of the store. We've all seen it. If you go to a restaurant, shop or otherwise they've just – there's a couple of shelves to do the curbside pickup or just the walk-in and pickup.

But on the back of house with some of the bigger formats, they've repurposed some of their back of house for distribution of fulfillment while others are still doing pick and pack within the stores. So, again, each retailer is trying to do what's best for them based on how they logistically are set up. And I think we'll just continue to see that this trend evolves. Layer on technology and the efficiencies there to manage stocking and inventory levels is going to be, I think, a hyperefficient system as we progress in the coming years.

Conor C. Flynn
Chief Executive Officer & Director, Kimco Realty Corp.

A

We've started to see some tenants – and this is early, but started to see them lease adjacent space for almost like sortation centers. So, that's an incremental net new demand factor. And we're watching that closely to see if that's going to have an impact. And hopefully, it's a new demand source for us.

Linda Tsai
Analyst, Jefferies LLC

Q

Thank you.

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

David F. Bujnicki
Senior Vice President-Investor Relations & Strategy, Kimco Realty Corp.

We just want to thank everybody that participated on the call. We hope you enjoy the rest of your day. Take care.

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