

27-Jul-2023

Kimco Realty Corp. (KIM)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Kimco Realty Second Quarter 2023 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 of Investor Relations and 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 is 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.

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 will begin with an overview of the leasing environment, highlight a few of our notable accomplishments during the quarter, and provide an update on our longer-term strategy. Ross will then cover the transaction market, and Glenn will close with our financial metrics and updated guidance.

Easing inflation and a robust labor market have bolstered consumer sentiment. Demand for space remains strong as retailers continue to pursue their expansion plans, resulting in a favorable leasing environment for the Kimco portfolio. We closed the second quarter with 153 new leases, totaling over 650,000 square feet. With strong demand from our high quality, first ring suburban locations and limited new supply, rents are up across all of our regions. Our strong leasing spread continued to validate our portfolio quality and embedded pricing power. Our new leasing spread was 25.3% and included new leases on four of the Bed Bath & Beyond spaces, two of which we recaptured during the quarter. Overall, we closed 485 deals during the quarter, totaling 2.7 million square feet with a combined spread of 9.9%.

Our second quarter renewal and option spread was 7.6%, with renewals ending at 6.5% and options at 9.3%. As a result of healthy consumer spending and desirable locations, the majority of our tenant base including small shops and anchors, are electing to renew, retain and reinvest in their stores. We ended the quarter with 332

renewals and options totaling 2.1 million square feet, exceeding the previous five-year average for second quarter renewal and option volume and kept our retention rate near all-time highs. Small businesses grew throughout our portfolio with sequential occupancy gains of 30 basis points to 91%. Only 10 basis points shy of our all-time high; and we executed 26 anchor leases this quarter, the most substantial anchor activity we have generated in over five years.

Overall occupancy for the second quarter finished flat at 95.8%. This includes the recapturing of eight Bed Bath & Beyond boxes in the second quarter. These vacates plus 11 from Tuesday morning resulted in an anchor occupancy reduction of only 10 basis points sequentially to 97.7%, while still up 10 basis points year-over-year. This leasing activity bodes well for the absorption of our remaining Bed Bath & Beyond boxes and has also widened our spread between the signed, but not open retailer pipeline to 300 basis points, another good indicator of future growth embedded in the portfolio.

While we are not immune to retailer bankruptcies, the overall quality and diversity of our tenant mix, high demand locations, and best-in-class leasing team, enable us to withstand, and in some cases, take advantage of the short-term vicissitudes of tenant failures. In terms of Bed Bath & Beyond, we've released seven locations through the end of the second quarter including the four new leases executed during the second quarter with a pro rata mark-to-market spread of 31%. In addition, three of our leases were purchased by the retailers as part of the Bed Bath & Beyond option. Currently, we have activity on the 19 remaining Bed Bath spaces with the mark-to-market to market opportunity of over 20%.

While we anticipate a dip in occupancy during the third quarter due to the vacating of the remaining 19 Bed Bath leases at the end of July, we have seven locations at lease and activity on the 12 remaining. Overall, we are encouraged by the brisk lease up of these boxes, which further demonstrates the quality of the portfolio and the strength of the retail market and ultimately we believe will benefit from backfilling these boxes with stronger credit tenants.

With respect to our long-term strategic goals, we continue to make good progress. First, we added a new Sprouts grocery store to an asset in Virginia, increasing our percentage of grocery-anchored assets in the portfolio to 82%. In addition, our mixed-use portfolio continues to shine. We have now reached 2,471 apartments in operations across the Kimco portfolio, with over 1,000 apartments under construction and 5,300 entitled, offering a significant pipeline of future densification opportunities. The residential densification both complements and enhances our retail site, resulting in higher asking rents and leasing activity. A perfect example of this is our Pentagon project in Virginia. A newly completed 253-unit apartment complex affectionately named The Milton, which is already 49% leased, and ahead on rental rate and absorption assumptions. The addition of The Milton will have positive long-term impact on the economics for the rest of the site.

In closing, we are pleased with the performance of our operating platform and proud of our team's strong execution that allowed us to quickly and accretively backfill our vacancies at meaningful rental spreads. A true testament to the quality of our portfolio and leasing team. We have also made significant progress in our ongoing efforts to maintain a strong balance sheet and related metrics. Glenn will provide the details shortly.

That said, we continue to challenge ourselves to do better. We are tracking our deal costs and our build out time from lease execution to rent commencement to ultimately enhance efficiency. We continue to focus on growing net effective rent and have reduced the timeline for building out space year-over-year for the past two years. In addition, we are proud to be recognized by Forbes as a net zero leader; the only shopping center REIT to make the top 100 list, as we strive to be a leader in sustainability. All these accomplishments are reflective of an enormous team effort at Kimco. While we are positioned to withstand headwinds that will inevitably emerge, we

are also ready to take advantage of opportunities as they present themselves in our ongoing efforts to maximize results for all of our stakeholders. Ross?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

Thank you, Conor, and good morning. I hope everyone is enjoying their summer so far. Industry volume of open-air retail transactions in the first half of the year was down significantly compared to 2022. That said, we're starting to see the market thaw with activity warming up in the sector. While we did not acquire any new properties or utilize our structured investment program in the second quarter, we believe our patience and strong liquidity position will be rewarded as opportunities arise in the back half of the year. Since the ICSC convention in late-May, we have seen a noticeable increase in quality products hitting the market with sellers that are seemingly prepared to meet current pricing expectations. At the same time, there continues to be significant demand from both institutional and private investors for high quality open-air retail.

While borrowing costs and equity yield expectations remain elevated, the significant levels of capital seeking core retail remains strong and ready to deploy. With this dynamic, the market feels healthier and more vibrant now than it has at any point in the past nine months. Considering this backdrop, coupled with over \$500 million of cash on our balance sheet at the end of the second quarter, we have been selectively targeting acquisition opportunities and accretive structured investments. There will be more detail to come on the existing pipeline as we move some of these deals across the finish line and we expect to close on a few select investments by year-end. As it relates to dispositions, we continue our selective approach, choosing assets for specific reasons.

Most notably, we sold our Christiana, Delaware land parcel for \$32 million directly to an auto dealership operator. After evaluating several potential development plans for both retail and industrial, it became clear that our best risk adjusted return was a direct sale to the operator; allowing for subsequent redeployment of proceeds into income producing investments. We will continue to assess various prospects on both the new investment side and select pruning opportunities as we strive to generate incremental FFO growth, while further strengthening our balance sheet over time.

I will now pass it off to Glenn, for an update on the financials and outlook.

Glenn Gary Cohen

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

Thanks, Ross, and good morning. Our high quality operating portfolio continues to deliver favorable results, highlighted by another quarter of positive same-site NOI growth and strong leasing spreads. Furthermore, with additional proceeds received from our Albertsons investment, we continue to enhance our liquidity position and leverage metrics.

Now, for some details on our second quarter results. FFO was \$243.9 million or \$0.39 per diluted share as compared to last year's second quarter results of \$246.4 million or \$0.40 per diluted share. Our second quarter results were driven by increased pro-rata NOI growth of \$7.4 million, largely due to higher consolidated minimum rents of \$12.5 million and higher percentage rent of \$2.5 million. These increases were offset by higher bad debt expense of \$3.8 million as the current period had a more normalized credit loss level compared to last year, which benefited from \$800,000 of credit loss income due to reversals of reserves.

In addition, the increase in rental property expenses, which includes greater insurance costs, eclipsed the increase in recovery income by \$3.5 million. Other factors related to the change in second quarter results were

higher G&A expense of \$4.8 million and pro-rata interest expense of \$5.9 million. We also benefited from higher interest income earned on our invested cash that was partially offset by lower dividend income resulting from the sale of Albertsons shares during the past 12 months.

Similar to last quarter, the uptick in G&A expenses was largely due to the anticipated staffing levels following the Weingarten merger, as well as greater non-cash expense related to the higher valuation of equity awards. The increase in interest expense relates to lower fair market value amortization linked to the previously repaid above market Weingarten bonds, as well as higher interest rates associated with floating rate debt in our joint ventures.

Moving to NOI. Same-site NOI growth was positive 2.3% for the second quarter and would have been even better at 3.2% if we excluded the impact of prior period collections. Looking at the components of the same-site NOI growth, we are encouraged by the 310 basis point increase from minimum rents and 70 basis point boost from higher percentage rent. These improvements were offset by a rise in credit loss of 120 basis points. Overall, these results demonstrate the continued strength of our well-located portfolio. As it relates to our Albertsons investment, during the second quarter, we sold 7 million shares of ACI stock and received net proceeds of almost \$145 million. It is our intention to pay the tax on the capital gain from the sale and have recorded a \$31 million tax provision. Both the gain on sale and the related tax are excluded from FFO. Year-to-date, we have monetized \$282.3 million of ACI stock and expect to retain approximately \$220 million for opportunistic investments and debt reduction. We currently hold 14.2 million shares of Albertsons, which has a value of over \$310 million.

As a reminder, during the first quarter 2023, we received a \$194.1 million special dividend from Albertsons, which was included in net income but not FFO. The Albertsons special dividend is considered ordinary income for tax purposes. As such, the team and board continue to evaluate the amount of the special dividend to our stockholders needed to maintain our compliance with REIT distribution requirements, which will be paid by year-end.

Turning to the balance sheet. We ended the second quarter 2023 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 5.9 times; the best level since we began reporting this metric and the first time it's been less than six months. Our sector leading liquidity position remains very strong, with over \$2.5 billion of immediate liquidity comprised of over \$500 million of cash on hand and the full availability of our \$2 billion revolving credit facility. In addition, we have the remaining Albertsons shares valued at over \$310 million. Based on our solid first half results, the monetization of our Albertsons shares, and expectations for the balance of the year, we are again tightening our FFO per share range to \$1.55 to \$1.57 from the previous range of \$1.54 to \$1.57, with all previously disclosed guidance assumptions remaining the same.

And with that, we are ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Samir Khanal of Evercore ISI. Please go ahead.

Samir Khanal

Analyst, Evercore Group LLC

Q

Good morning, everyone. Hey, Conor on – you mentioned the mark-to-market opportunities for Bed Bath. I think the balance and you said it was like 20%, was a number you gave. I guess, how are you thinking about the capital required or the CapEx involvement that'll be required to get to that return. Thanks.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Yeah. Happy to take that one. And Dave, you can chime in as well. I think obviously you've seen the demand side. It would be very strong for individual users to take the whole box which obviously creates an ideal situation, where if you have a single tenant user taking the entire box, your tenant improvement allowance and your landlord work are quite a bit lower than if you were to split the box. And yes, we've given that range of 20%-plus on the mark-to-market on the Bed Bath boxes. Obviously, you've seen the ones that we executed have been a little bit ahead of that as we continue to work through the box inventory.

David Jamieson

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

A

Yeah. On the deal cost side, for the ones that we've executed and the ones we're currently tracking at lease, it's falling right in line with what we've seen historically with our anchor repositionings, with boxes around 20,000 to 40,000 square feet. That range is around 60 to 70 bucks a foot. So we have another 19 to go. Obviously, it will be high than those related to that, but I think it'll be more or less in line with what we've been seeing so far.

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

Jeffrey Spector

Analyst, BofA Securities, Inc.

Q

Great. Good morning. Conor, you talked about retailers continuing to pursue expansion plans. Can you talk a little bit more about what you're seeing since we saw you at ICSC and NAREIT; maybe categories, regions, you know and these expansion plans that we talking about, you know, 2024 and 2025? Can you provide a bit more color?

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Sure. Happy to. Look, it's a broad base of demand drivers we're experiencing right now, which is great when you think about the Bed Bath boxes that we have coming into inventory, we really have the pick of the litter right now in terms of the best-in-class retailers. And we have, I think, a nice combination of grocery anchors that are looking to expand. So, if you look at the traditional grocers, whether it's Kroger, Albertsons, [ph] Ahold (00:18:38), they continue to grow and you've got the specialty grocers with Whole Foods and Trader Joe's ramping up expansion plans. You've got ethnic grocers continuing to expand and you've got the off-price sector that continues to be warring for space. It really is an incredible demand driver there with TJ Maxx and all of their banners, Ross and

their banners, Burlington, of course, being very aggressive at the Bed Bath auction and continuing to look for space. That combined with some of the other categories that we have, like, sporting goods and other things, it's a nice combination of real drivers for the anchor space.

The other piece of it, though that I want to make sure I don't forget to mention is this the small shop demand is quite robust. And that's very, very encouraging, I think, for the overall US economy. So if you think about the small business being really the heartbeat of the US economy, we're seeing tremendous demand on small shops. You know, driving our occupancy up near all-time highs, continued building a pipeline of new leases there and the retention rates are very high there. So it's a nice combination of both anchors and small shops.

Operator: The next question comes from Michael Goldsmith of UBS. Please go ahead.

Michael Goldsmith

Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. As we think about the capital that you have in hand, \$500 million in cash, \$300 million in Albertsons shares, and then you kind of marry that with what Ross was saying about the activities tying and what sort of opportunities are you seeing out there in the marketplace to acquire centers? What are the catalysts for sellers? And then, it sounds like there is a much more narrower gap in pricing. So what's the ballpark for the cap rates right now for the transactions that you're pursuing?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Sure. I'm happy to address that. Yes. To your point, as I mentioned, we are seeing additional activity in the market. Now, it's still somewhat hit or miss in terms of the assets that are in the market, where they're pricing and which ones are trading. But there's been more quality grocery that has hit the market that is still demanding sub-6 caps in many cases and getting them. We're starting to see some larger assets at the market that maybe have a little bit of a higher spread where you can get a bit more yield, but still pretty strong quality.

I do want to address the cash that you were talking about and the uses for that. We're still fully committed to the net acquisition spread of about \$100 million to the positive, but we do have certain uses for that cash already allocated as well. We talked a bit about some of the redevelopment spend that we have, taxes on the ACI sales and the special dividend. So, while we do have some capital that has already sort of earmarked for that spend, we do think that given our cash position we're in a pretty unique position to be aggressive on the acquisition side, but still maintain a strong level of discipline.

Operator: The next question comes from Craig Mailman of Citi. Please go ahead.

Craig Mailman

Analyst, Citigroup Global Markets, Inc.

Q

Thanks. Maybe Ross, to follow-up on that prior question on the acquisition market. Maybe just some incremental color on where you're seeing better opportunities, is it structured finance side of things, is it on the equity side of things. And you know, you guys were reported to be buying like \$170 million acquisition in Northern Virginia. Is that something that could close here in the near-term? And, I know you said \$100 million net acquisitions, but is there an opportunity to go above that? And do you have enough disposed teed up to fund that or do you maybe just [indiscernible] (00:22:34) little bit back up above 6 times in the near-term and then have that kind of drift back down?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Sure. Yeah. I mean, I think where we're seeing opportunity today from a pricing standpoint is on sort of the larger deal size and some of the portfolios. Single asset, grocery anchored in the \$20 million to \$40 million range are still pricing as aggressively as ever; and when you think about the cash position that we have, which is currently earning 5% there needs to be a meaningful spread for us to get excited about an acquisition. I'm not going to comment specifically about the asset that you're referring to, but as I mentioned we are active and we do believe that there will be some closings within the program within the back half of this year, both on the structured investment side as well as the acquisitions side.

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

Q

Hi. Good morning. It's [ph] Eric (00:23:38) on for Juan. I was just curious if you could talk about the cadence of same-store NOI post Bed Bath auction and just understanding that any downtime of the stores could create some lumpiness year-over-year. Thanks.

Glenn Gary Cohen

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

A

Yes. So, on the same-site NOI guidance, again we left our guidance the same at 1% to 2%. For the second quarter as I mentioned in my prepared remarks, we were at 2.3%. We will obviously have a little bit of headwind with the Bed Bath bankruptcies and the leases that we got back in the third quarter, but overall we feel very comfortable with the guidance range that we put out for the year.

David Jamieson

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

A

Yeah. And with the downtime on the backfilling of the boxes, obviously it varies based on existing conditions and the type of use that we're converting. So, it could go anywhere from 9 months to 12 months, slightly longer if the conversions are slightly more complicated. But right now that's more or less falling in line with what we've seen traditionally with our anchor activity as we've been closely measuring that and monitoring it over the last several years.

Operator: Our next question will come from Caitlin Burrows of GS. Please go ahead.

Caitlin Burrows

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. I know that this year you don't have any significant debt maturities, but you do have some in 2024. So, is there any if you could talk about how you wade paying off preferreds in the second quarter versus your cost of maybe 10-year unsecured debt today and that you do have 2024 debt maturity?

Glenn Gary Cohen

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

A

Sure. I'll take that. We have just under \$650 million of bonds maturing in the first part of 2024. Again, we have cash on the balance sheet today. We have lots of liquidity, obviously, with our revolver, but our intent would be to

take those bonds out before the end of the year. In terms of pricing, again, pricing's moved around quite a bit. Base rates have moved around, but I would say today we're probably about 1.75% over [indiscernible] (00:25:56) with where it is, you'd be refinancing somewhere in the 5.6% range, 5.7% range relative to the bonds that are coming off that are at 2.7% and have the other bond has an effective yield of about 1%.

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

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Hey, morning up there. And nice touch on naming the tower, The Milton. Conor assume one day we'll see The Conor in apartment lens. So question for you on insurance, not necessarily for you guys, per se, but for your tenants. And Conor specifically you spoke about the strength of the small tenants, small shop opening. Given all the property insurance headlines we've been reading about, not sure how this affects business, insurance, but is there a way that tenants can avail themselves of Kimco's wrapper that they pay into you and as a result, get lower insurance rates or business interruption and the type of insurance that smaller tenants would avail themselves of is not something that you guys want to play in? Just trying to think about ways that you can help your tenants given your size and scale.

Glenn Gary Cohen

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

Yeah. What I would say Alex is overall we're always looking to try and be a low cost provider and try and keep costs down as best as we can. Early property insurance has been a challenge this year and in the market. Now, we do have a blanket policy which avails us of a rate that blends all of our properties together which we think does help us. This is a pass-through to the tenants, but again we do everything that we can to try and minimize it and look at the overall recovery rate that we can get.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

Yeah. I think you're spot on in trying to figure out how to use that as a strategic advantage because we've talked about that a lot. Obviously, the residential insurance market has gone through a whirlwind of pain. The commercial side of it, we've benefited from our portfolio diversity, and I think that sometimes goes unnoticed where if you look at our portfolio and how we really continue to evolve it, we've got the benefit of having tremendous diversity of geographic spread that allows us to price extremely well in the insurance market. And even though individual insurers are obviously feeling the pain or one-off commercial properties are feeling the pain, we do have a big benefit there, as Glenn said, that we pass on to our tenant base.

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

Haendel St. Juste

Analyst, Mizuho Securities USA LLC

Hey, good morning out there. I wanted to go back to the transaction line of questioning a bit. And kind of, Ross, I understand the sensitivity and not wanting to discuss the Stonebridge asset too specifically, but the press is reporting it to be a 7% cap rate. So, can you talk a bit about where the market is today in terms of cap rates for the quality of assets you would be interested in buying? And if you're starting to see some movement in cap rates from the 6% you discussed last quarter? And perhaps is there something more specific here, perhaps the larger size, maybe a motivated seller that would be leading to the higher cap rate for this transaction? And then, perhaps

just how sellers are thinking about selling in this environment now facing higher interest rates versus perhaps the expectation of lower interest rates in the back half of the year? Thanks.

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. I think as we were chatting about a little bit earlier, it's the neighborhood grocery centers that are bite sized, that are all cash buyers that aren't reliant upon financing, are still pricing as aggressively as they have in quite some time in the sub-6 cap range. When you start to get into the larger format and larger check size, there's a fewer bidders that can cut that check without finance contingencies, which ultimately leads to a bit of a higher yield. So you are seeing some of the \$100 million-plus transaction size able to achieve a better yield than the smaller deal size.

In terms of the sellers, they are a little bit all over the map, but it's dynamic of a lot of demand and the fundamentals of our product continuing to be really strong. And owners and buyers that really want to own open-air shopping centers, when you look at it compared to other asset classes. We're in a really good spot. And I think that a lot of institutions have noticed that. And as sellers that are looking to raise capital, it's a good place to be able to sell and still maintain relatively strong pricing, particularly for assets that were acquired in the last couple of years, whereas shopping centers, open-air centers never really got to those extremely low cap rates like some other sectors. So we've maintained our value in this sector really well.

Operator: The next question comes from Floris van Dijkum of Compass Point. Please go ahead.

Floris van Dijkum

Analyst, Compass Point Research & Trading LLC

Q

Thanks. I wanted to – maybe have you expand a little bit more on, you know, occupancy keeps going higher here. There seems to be very little supply in retail. Maybe, Conor, if you can give some general comments on where you think occupancy could trend? Obviously, you know, near-term it's going to go down in the third quarter, you've indicated, because of the Bed Bath spaces you're going to get back. But how much beyond peak occupancy can this portfolio push in your view and how do you position your company and how does your push into mixed use also help you boost your occupancy levels on a on a going forward basis?

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

Sure. Happy to take that one, Floris. I think when you look at the demand drivers we have today, we're in sort of a new paradigm of retail where we haven't had this breadth of demand for multiple different size categories. We've had it before in certain specific sizes of square footage boxes, but we haven't had it across the board in terms of large anchors, junior anchors, mid-sized box and small shops. And that's where I get really excited about the future potential that we have, because we've really started to enter into a phase of retail where for the last 12 years, we've been at virtually no new supply.

Tenant demand continues to grow and we're starting to get the net benefit as well as new demand drivers whether it's medical, health and wellness coming into the shopping center space, it's all about convenience and value and mall tenants are starting to anticipate that as well. So, you're seeing now that snowball effect starting to occur as well as originally it started at just a handful, but they're starting to gain traction as multiple mall retailers are looking to locate closer to where their consumer lives and works and plays.

And so when you think about the all-time high occupancy of Kimco in the past, I do feel like that's a look back and we're looking forward. The nice part about, I think, where we sit is yes we will get some Bed Bath inventory back in the third quarter, but we've got tremendous activity on those spaces. And as I mentioned before, the small shops are really encouraging because I think that's where you're going to see significant upside versus our all-time high. And I continue to see that breadth and depth of demand evolving as the shopping center is multi-use, multi-category and you add mixed-use to that component, and all of a sudden you've got this dynamic where the amenity base that the shopping center is providing is driving significant upside in rents to the apartments and vice versa. The apartments built in consumer base are driving sales to the retail.

And so there is this harmonious effect that we're experiencing, and that was our original thesis. When we started the mixed-use program just a few years ago, and it continues to bear fruit. And obviously mixed-use for us is focused on apartments. We have no percentage of NOI coming from office. We really like the combination of the apartments and the retail thriving off of each other.

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

Greg McGinniss

Analyst, Scotiabank

Hey, good morning. So regarding the Bed Bath and Tuesday Morning boxes, how long do you expect it will take to fully lease all those boxes? What types of tenants are taking over those units, and how are you thinking about bad debt expense guidance, given the level of tenant credit events to-date and expectations for year-end?

David Jamieson

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

Sure. So as we mentioned on the Bed Bath boxes; right now, we have we have 10 resolved, we had 7 that were leased and then 3 that were picked up through the two auctions. That leaves 19. We also mentioned earlier the activity that we currently have. We have around 7 leases in process with the existing Bed Bath locations and we have a number of LOIs. So, we feel like we're in a pretty good position to exceed at least 50-plus-percent obviously by year-end in terms of getting resolved and obviously trying to push out as far as we can through the balance of this year.

As it relates to the Tuesday Morning, we have 11 that vacated in Q2. We have one other one that vacates in Q3, three of which were picked up by assignment, and Five Below very active in that regard. Obviously, we have a lot of those other mid-sized box tenants that are looking [indiscernible] (00:35:54) of the world and others that are currently pursuing those boxes. So, I think from an absorption standpoint, we have a very good pace that we're currently on and that we're looking to maintain that for the balance of the year.

Glenn Gary Cohen

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

Yeah. As it relates to the credit loss owing into it, again, our guidance is 75 basis points to 125 basis points. Through the six months, we're around 80 basis points; so towards the lower end of the range. It is though important to just keep in mind that our range, it really does account for some potential lost rent from unbudgeted vacancies. So we've kind of built that into the guidance and again, we remain comfortable with the guidance range that we put out for the current year.

Operator: The next question comes from Anthony Powell of Barclays. Please go ahead.

Anthony F. Powell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. I have a question on the lease, but not yet commenced rent pipeline which is now 300 basis points. What's the optimal number for that? I'm guessing it'll go up in like few quarters as you signed new Bed Bath leases and whatnot, but when should we start coming back down and how have store opening trends evolved from signing to opening in the past few quarters?

David Jamieson

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

A

Yeah. So I mean, the leased economic occupancy obviously expands through new lease activity, and then also the loss of occupancy rate. So those are the two metrics that can expand or contracted. So you have obviously expansion of new deals that were signed this quarter, offset by some openings and offset additionally by some of the vacancy for Bed Bath were at 300 basis points, \$50 million in total. We would anticipate that the lease economics will fluctuate in the near-term. As we continue to open new stores, we still have those other 19 Bed Bath that we'll be getting back this quarter. So that will have an impact on that number as well, but on a go forward basis, I'm sorry what was the rest of the question?

Glenn Gary Cohen

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

A

When we'll come down and what's the optimum?

David Jamieson

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

A

Yeah, yeah. I mean, so I don't anticipate it coming down in the near-term on a material basis for the next 12 months.

Glenn Gary Cohen

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

A

I would just add historically prior to the pandemic, that snowcap was running in the high-100, low-200 range. So again, as we continue to lease up further and the openings continue to catch up, you'll start to see it come down eventually.

David Jamieson

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

A

Sorry, that was the other part of your question, that it was the execution to [ph] RCD dates (00:38:40). We're tracking pretty well. Conor mentioned in his script that we've seen a decline in the execution of our [ph] RCD (00:38:46) over the last two years. It has come down around 7%, which is a little bit contrary to what we I think anecdotally have shared in the past because of supply chain issues, permitting, et cetera. So when we looked at the total pool of our population of activity, I think you tend to focus on the ones that are more challenged to get through, but when you realize the volume of activity that we have on a regular basis, net-net when you average it all together, we've actually seen modest improvements.

I think that's usually attributed to obviously the team, the tenant coordinators and the construction teams that are constantly out there in the market working with the tenants, early on in the process getting their plans and permits in place, working with the cities to get those permits issued. And then on construction, really working with the [ph] GCs (00:39:37) collaboratively to get those tenants open and trying to order materials as soon as possible or

repurposing the use of existing materials like HVAC equipment to limit that downtime. So, net-net that's really a combination of all of that that's helping drive good success here.

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

Dori Kesten

Analyst, Wells Fargo Securities LLC

Thanks. Good morning. How would you describe your negotiating leverage today with prospective tenants? And beyond rent increases, where else is your leasing team currently pushing?

David Jamieson

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

Yeah. I mean, the leverage, I think it's obviously been in favor of landlords over the last several years because of the limited supply, very, very low new development has been a theme for years now. And it was originally the COVID inventory. Now it's some Bed Bath inventory that are creating opportunities for tenants.

Again, as Conor alluded to earlier, you're seeing a lot of tenants expand their market share, wanting to grow into new markets, penetrate shopping centers that otherwise were not reachable before because the occupancy was so high. So, given those opportunities, you're seeing a lot of those demand forces come into play, which obviously enables us to negotiate favorable terms.

At the end of the day, we do a deal that works for both parties. It is a long-term partnership which is really important. So outside of rents, it's obviously cost; the capability of our team to open a tenant I think is really important. That was a theme that came out of COVID, whereas some other landlords may not have had the resources available that we do, that ensure the opening component for retail tenants; which is so important for them to hit their growth numbers. So, I think that's where you're seeing a lot of the strength in the growth and these longer-term partnerships that we have with our major retailers.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

You're also seeing the annual escalations continue to improve. Historically, the business was running around, call it, 2% and now we're seeing it above 3% on annual escalations. So I think on the small shop side, that's really where you're seeing a meaningful pricing power shifting to the landlord side.

Operator: The next question comes from Ronald Kamdem of Morgan Stanley. Please go ahead.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Hey, just quick questions on same-store NOI and interest expense. Just trying to get some breadcrumbs here as we're thinking about sort of next year. So you have minimum rent growth 2.9%, call it 3% in the quarter. As we're thinking about next year, is the bad debt really sort of the biggest delta that 75 basis points to 125 basis points given that there's still some tenants on the watch list is number one. And then on the interest cost, just can you provide a little bit more comment? You talked about refinancing that early 2024 maturity this year and as well as capitalize interest; just maybe, what are some of the things we should be mindful of? Thanks.

Glenn Gary Cohen

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

A

Yeah. On the same-site NOI question, again, I would say that bad debt expense now is back to a more normalized level. So, I think when we look at 2023 versus what will probably occur in 2024, the bad debt expense should not have a dramatic impact on what happens within same-site NOI growth. We have to watch for the lease up activity, the pace of the lease up activity and then if there's potential other bankruptcy situations that would have an impact on it.

As it relates to the interest expense, again the fair market value amortization that we've talked about continues to burn off. So there's about another \$10 million left next year that will burn off. And then it'll really come down to the pricing of that next set of bonds relative to the funds that we have today. So we do expect interest expense will certainly be higher next year. Our goal is obviously for the operating portfolio to outpace the interest expense growth.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

A

And then on the capitalized interest side of it, there is really should be modest changes in that because we have The Milton coming into service this year and then we have the Suburban Square mixed-use apartment project coming in to the sub as a redevelopment program.

Operator: The next question comes from Paulina Rojas of Green Street. Please go ahead.

Paulina Alejandra Rojas Schmidt

Analyst, Green Street Advisors LLC

Q

Good morning. You mentioned seeing good interest for open-air shopping centers from institutional investors. Can you provide incremental color on the topic, and in particular, within this bucket you are seeing more active in the transaction market? And I'm sure it's difficult to say but if you're sensing any interest, an increase in their exposure to retail versus other asset classes?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

A

Yeah. I think we've continued to see capital formations coming together. Got some strong operators in the market today that are aligning themselves with institutional capital whether the intensions or sovereign wealth. Again, I think open-air shopping centers in the United States when compared to other asset classes are as attractive on a relative basis as it's ever been. So, I think as we continue to see quarter-over-quarter the fundamentals of our business remaining strong, and some of the worries of macro economy subsiding to a certain extent as it relates to the consumer and to the open-air shopping center, it should give a lot more conviction to buyers on the private side as well as the institutional capital and our REIT peers here. So the no shortage of capital it's just a matter of making sure that the combination of a risk adjusted return is there. And again as you're seeing it on a relative basis to other sectors, it feels pretty good right now.

Operator: The next question comes from Wes Golladay of Baird. Please go ahead.

Wesley Golladay

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

Q

Hey, good morning everyone. Do you have an estimate of the range of cash leaving for special dividend? Is there anything you can do to minimize it by the end of the year?

Glenn Gary Cohen

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

A

So we're still evaluating a variety of tax strategies to try to reduce the amount that would be required. It's still influx today. I would say that by the end of third quarter, we'll have a much better handle on where we think that level will be. Again we look at overall taxable income, the \$194 million special dividend received from Albertsons goes into the total mix. I don't think that the special dividend will be that large. We've already been able to mitigate it somewhat, but I think as we get towards the end of the third quarter for the next conference call, we'll have a good handle on it and the payment will be made by year-end.

Operator: The next question comes from Stephen (sic) [Ki Bin] (00:47:17) Kim of Truist. Please go ahead.

Ki Bin Kim

Analyst, Truist Securities, Inc.

Q

Hey, thanks. Good morning. Just a couple of questions on expenses. First, on taxes. It looks like the growth is pretty minimal. I'm just curious if, you know, is there a timing element to this? And what your views are on real estate taxes going into next year? And on your recovery margins and when you compare the year-to-date numbers to last year, you're running at about 120 basis points lower recovery ratio. I'm not sure if there's a timing element with that, that's happening. But just kind of your overall thoughts on that recovery ratio going back up. Thank you.

Kathleen Thayer

Senior Vice President, Corporate Accounting & Assistant Treasurer, Kimco Realty Corp.

A

Sure, Stephen (sic) [Ki Bin] (00:47:58). I'll take that. It's Kathleen. So just on your question on the real estate taxes. For year-to-year we do see slight increases that happen at our properties and we do expect to see that trend continue. So, no anomalies there that we're seeing. On the recovery side, as Glenn mentioned in his prepared remarks, we are seeing an increase in the insurance expense. And also due to inflation, we are seeing certain other categories that are increasing. So that is impacting that ratio of recovery that you are seeing on that same-site NOI page. We are going to continue to monitor our controllable expenses and we do anticipate that that will soften the impact from these inflationary costs that we are seeing.

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

Linda Tsai

Analyst, Jefferies LLC

Q

Hi. Where do you expect occupancy to end, year-end just given some of the moving pieces? And then, how do you think about the CapEx being allocated to the Bed Bath versus Tuesday Morning boxes?

David Jamieson

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

A

I mean, occupancy, we anticipate probably having a slight dip in Q3. It's a 50 basis point headwind due to Bed Bath, but as we mentioned throughout the call, we're very encouraged by the activity that we've seen, not only to the Bed Bath but all of the other box activity and small shop activities. So our job is to push as hard as we can to maintain the levels we have and that's what we'll continue to do. In terms of CapEx allocation, I mean, we signed

26 anchor leases this quarter which is the highest since 2017. And then you have to go all the way back to 2013 with that size volume. So obviously there is a sizable allocation more towards the anchor boxes that you would see on a go forward basis relative to Tuesday Morning.

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

Michael W. Mueller

Analyst, JPMorgan Securities LLC

Thanks. I was wondering, can you just give us a little bit of color on the types of structured investments you're looking at and how we should be thinking about economics?

Ross Cooper

President & Chief Investment Officer, Kimco Realty Corp.

Sure. You know, when we're looking at the structure investment program, first and foremost it comes back to the quality of the real estate and as well as the quality of the sponsor and the operator. So we really have not strayed far at all from our acquisition criteria of what we will look to acquire, as to where we would look to put our preferred equity or mezzanine ads. And so we're staying very disciplined with that approach. And as you've seen this quarter, we didn't do any new deals because nothing fit the target, but we do think that in the back half of the year there'll be some other opportunity that we'll be able to close on.

So the pricing continues to be well in excess of our cost of capital. So it's a nice program from an accretion standpoint, but we do expect that our investment will be able to generate double digit returns at a minimum and hopefully with some upside participation, it will be greater than that in the future. So that's really the way that we're evaluating that program today.

Conor C. Flynn

Chief Executive Officer & Director, Kimco Realty Corp.

The other nice component, too, is the preferred equity investments we make to have a right of first refusal on it which allow us again to have almost like a future acquisition pipeline. So it's building the structured investment program to allow us to acquire those assets that we would love to own 100% of in the future as well.

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.

I just like to thank everybody for joining us today. I hope you enjoy the rest of your day. Thanks so much.

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

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