

Earnings Call Transcript



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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Kite Realty Group Q1 2026 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions]

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker, Mr. Bryan McCarthy, Senior Vice President of Corporate Marketing and Communications. Please go ahead.

Bryan McCarthy

Senior Vice President-Corporate Marketing & Communications, Kite Realty Group

Thank you and good afternoon, everyone. Welcome to Kite Realty Group's first quarter earnings call. Some of today's comments contain forward-looking statements that are based on assumptions of future events and are subject to inherent risks and uncertainties. Actual results may differ materially from these statements.

For more information about the factors that can adversely affect the company's results, please see our SEC filings, including our most recent form 10-K. Today's remarks also include certain non-GAAP financial measures. Please refer to today's earnings press release, available on our website for reconciliation of these non-GAAP performance measures to our GAAP financial results.

On the call with me today from Kite Realty Group, our Chairman and Chief Executive Officer, John Kite; President and Chief Operating Officer, Tom McGowan; President and Chief Financial Officer, Heath Fear; Senior Vice President and Chief Accounting Officer, Adam Jaworski; and Senior Vice President, Capital Markets and Investor Relations, Tyler Henshaw.

Given the number of participants on the call, we ask that you limit yourself to one question and one follow-up. If you have additional questions we ask that you please rejoin the queue.

I'll now turn the call over to John.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

Thanks, Bryan, and good morning everyone. We entered 2026 with an ambitious set of operational and strategic goals, and through the first quarter, we are firmly on target. Tenant demand remains healthy, our signed-not-open pipeline remains elevated, and the underlying fundamentals of our portfolio have never been stronger.

This is a result of deliberate work over the past two years to reshape KRG into a higher caliber, faster growing and more resilient company.

We've sold over \$600 million of non-core assets, entered into strategic and transformational joint ventures, repurchased shares at pricing well below consensus NAV, and repositioned the portfolio squarely toward higher growth and higher quality grocery anchored lifestyle and mixed use assets.

These actions are proactive, decisive and disciplined, designed to capitalize on the disconnect between public and private market values while fundamentally elevating the company. The KRG you see today is significantly improved from where it was 24 months ago.

The first quarter was another clear example of that discipline in action. We repurchased 6 million common shares for approximately \$152 million and sold Coram Plaza, a non-core, lower growth asset.

Together with the activity completed in 2025, we have now repurchased 16.9 million shares for \$400 million at an average price of \$23.67, representing a compelling arbitrage buying our own stock at an FFO yield meaningfully wider than the yields at which we've sold lower growth assets.

As we advance through 2026, we will continue to evaluate capital recycling opportunities that further optimize the portfolio and support our long-term strategic objectives.

None of this is possible without the strength and versatility of our balance sheet. Our ability to sell assets, repurchase stock, enter into strategic joint ventures, fund growth, and continue investing in the portfolio is a direct result of the disciplined financial posture we've maintained over multiple years.

We remain committed to operating with conservative leverage, ample liquidity, and meaningful financial flexibility, which allows us to stay opportunistic while continuing to protect the long-term durability of the platform. That discipline is translating directly into operating performance.

Demand for space in our high quality centers remains exceptionally healthy, and our first quarter results reflect both the strength of the portfolio and the quality of our execution.

Same property NOI increased 3.6% in the first quarter, a strong start to the year. During the quarter, we executed 151 new and renewal leases, representing over 700,000 square feet. Blended cash leasing spreads were 13.5%, including 31.3% on new leases.

Our non-option renewal spreads were 12.3%, demonstrating the continued mark-to-market potential embedded within our portfolio. Our leased rate stands at 94.7%, a 90 basis point increase year-over-year, reflecting the continued absorption of our inventory by high quality, well capitalized retailers.

During the quarter, we signed new leases with a variety of sought after concepts, including On Running, Reformation, Warby Parker, Total Wine and Barnes & Noble. ABR per square foot reached \$22.89 at quarter end, a 6.5% increase year-over-year.

Our signed-not-open pipeline remains elevated at approximately \$36 million of NOI, representing its 350 basis points spread between our leased and occupied rates.

The average ABR for leases in our signed-not-open pipeline is \$28 a square foot. Embedded rent escalators are the first stone in the foundation of long-term total return, contractual growth that compounds over time.

Two years ago, our embedded rent escalators were just 156 basis points. Today, they stand at 182 basis points. As we advance towards our 200 basis point target that trajectory is driven by factors within our control, strongly structures, disciplined merchandising and the deliberate reshaping of our portfolio.

Simply put, KRG is an exceptional position. We have a better portfolio, a rock solid balance sheet, a more durable growth profile, and a team that continues to execute with urgency, discipline and focus.

I want to thank the entire KRG team for the hard work that got us here, and for the continued energy, commitment and conviction required to keep raising the bar.

I'll now turn it over to Heath.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

Thank you, and good afternoon. After the first quarter, KRG is exactly where we want to be on offense, on plan and operating from a position of strength. We are elevating the portfolio, sharpening the platform, and building momentum for another highly productive year.

Turning to our results. KRG generated \$0.52 of NAREIT FFO per share and \$0.52 of core FFO per share in the first quarter. Same property NOI increased 3.6% in the first quarter, driven primarily by a 250 basis point contribution from higher minimum rents, a 55 basis point improvement in net recoveries and a 45 basis point improvement in overage rent.

On our last call, I indicated our expectation for same property NOI growth in 2026 to be lower in the first half of the year and accelerate the second half. It's important to note that the 3.6% result in Q1 exceeded our expectations as a result of higher than anticipated overage rent, lower than anticipated bad debt, and the reversal of large real estate tax reserve.

As for the trajectory of same property NOI for the balance of the year, we anticipate a moderation into the second quarter, followed by a reacceleration to the back half of the year as the rents from our large signed-not-open pipeline begin to commence. Due to outperformance in Q1, we are increasing our 2026 same property NOI range by 25 basis points at the midpoint.

As illustrated on page 5 of our investor deck, the uptick on our same-store guidance is being offset by a corresponding reduction in our recurring but unpredictable items.

As a result, we are affirming our NAREIT FFO and core FFO guidance of \$2.06 to \$2.12 per share based on a same property NOI growth range of 2.5% to 3.5%; a bad debt reserve of 95 basis points of total revenues at the midpoint, reflecting our actual first quarter results, blended, with a continuing assumption of 100 basis points for the balance of the year; and interest expense, net of interest income, excluding unconsolidated joint ventures of \$121.2 million in the midpoint, up from \$121 million.

This guidance fully incorporates the incremental \$100 million of stock we have repurchased since our last earnings call, and further contemplates \$170 million of 1031 acquisitions scheduled to close in the second quarter.

This represents a \$60 million increase as compared to original guidance, and \$145 million of non-core and/or tax loss [ph] driven (00:10:03) dispositions with \$12.5 million closed in the first quarter and the balance closing in the back half of the year.

This represents a \$30 million increase in the disposition pool as compared to original guidance. As a reminder, to the extent the aforementioned 1031 acquisitions or non-core sales are not completed, it could result in a special

dividend for 2026. The changes in our transaction assumptions are opportunistic and a continuation of our disciplined focus on matching sources and uses in an earnings friendly manner.

John alluded to moving to the back half of the year, we will continue to evaluate opportunities to further refine our portfolio, provided that we're able to prudently deploy the proceeds.

Our balance sheet remains one of the strongest in the sector. As of March 31, our net debt to EBITDA was 5.2 times consistent with our long-term range of low to mid-5s.

It is worth taking a step back to appreciate the level of transactional activity we have executed over the past 18 months, while still maintaining one of the lowest leverage profiles in the sector. We have access to over \$1 billion in total liquidity, providing us with significant flexibility to pursue value enhancing opportunities.

Thank you to the KRG team for the relentless efforts in driving our results and creating long-term value for our stakeholders. Operator, this concludes our prepared remarks. Please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from the line of Cooper Clark with Wells Fargo. Your line is open.

Cooper Clark

Analyst, Wells Fargo Securities LLC

Q

Great. Thanks for taking the question. As we think about the share buyback program moving from \$300 million to \$600 million, just curious about the willingness to potentially upsize disposition volumes even higher in the back half of the year, as we think about the \$145 million of non-core assets contemplated in the back half, given the demand for product in the market today and the ability to improve portfolio quality with potentially minimum dilution as we think about buybacks, coupled with 1031 acquisitions.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group T

A

Sure. Hey, Cooper. Yeah, I think as we said in the prepared remarks, we're going to continue to evaluate the market and evaluate the opportunities. We want to execute what we have in front of us in terms of the 1031 opportunities to try to close on in the next quarter.

And it's always going to be a function of where cost of capital is, what the opportunities are to reposition the capital. So I think we're trying to make it clear that we're reviewing that. That's a potential opportunity.

If you go and look at what we've done in the last year and you include in what Heath had said is in the guidance, I mean, you're talking about if we execute on that, that's like \$750 million approximately of sales.

So this is significant. We continue to try to do that in a very meaningful way, in the sense of how we manage the total portfolio, manage the balance sheet and manage protecting earnings as good as we can.

So that's a long winded answer of saying, yeah, that's a possibility, but a lot of factors involved in that. Heath, you want to answer that.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

A

No, that was perfect.

Cooper Clark

Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. And then moving towards the economic occupancy side, I believe current economic occupancy sits about 260 basis points below your historical highs, as many of your peers are near or above historical high economic occupancy.

So curious if you could just talk about the opportunity set there longer term, and how much the SNO pipeline may contribute to higher absolute economic occupancy levels in the back half of 2026 and 2027, as we also contemplate some more regular weight churn?

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Sure. I mean, we think we're bullish on our ability to continue to push occupancy higher, both economic and leased rate.

Year-over-year we're up obviously, sequentially slightly down, which is not unusual in the first quarter. If you look back over the past four, five years, I think five years, probably three of those first quarters are slightly down sequentially.

But what we're focused on is the year-over-year growth. We do think there's real opportunity based on lack of supply and continued strong demand. But as we tried to point out, we're very focused in on proper merchandising, and we're very focused in on getting the right retailers and the right spaces and trying to pursue this embedded rent growth that is going to pay dividends in the future.

So, we're not in a super hurry to hit any particular number. But we do feel like there is really strong demand and that's part of what we're doing in terms of repositioning the portfolio in the sense that the stronger portfolio will be able to maintain higher occupancy over longer periods of time. So again, yes, we believe we have plenty of room to run.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

A

I would add a lot of attention questions and comments have been around the transactional activity and refining the portfolio. But at the end of the day, one of the biggest opportunities in front of us is that core opportunity of leasing.

And if you look across the peer set, as you said in your question, Cooper, we've got the most room to run in terms of just growing organically. So while all this other stuff is certainly moving us along, let's not lose focus on the fact that we've got the most occupancy [ph] run (00:16:03) left.

Cooper Clark

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Thanks.

Operator: Thank you. One moment for our next question. And that will come from the line of Samir Khanal with Bank of America Securities. Your line is open.

Samir Khanal

Analyst, BofA Securities, Inc.

Q

Good afternoon, everybody. I guess John or Heath, maybe expand on your comments on capital recycling, maybe broadly kind of what you're seeing in the transaction market, the interest level that you've gone for your assets that you could potentially sell down the road. Thanks.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Sure. I'll start with that, Samir. I mean, there is a strong demand for open-air retail and it's coming from really many, many avenues. And I would say in the last six months, nine months, but even six weeks, you see a lot more institutional capital positioning to want to be in the space, a rotation, if you will.

So that obviously – that puts pressure on cap rates to move down over time. And we really still haven't seen a movement in interest rates. So if that happens in addition that that would be additional fuel.

But really even without that, the demand is strong. I think when people look at their portfolio and they look at how they balance it and they look at risk-adjusted returns, our product screens well.

So you have seen that, I mean, but we still have this ability. We hope to continue to do what we're doing, which is to, if we're going to recycle capital, we want to recycle it into higher growth assets.

And honestly, if you look at page 6 of our investor deck, it kind of shows you what we're doing. And then I think a couple pages later, which is the page 6 shows the increase in decrease, that we've had in various product types. And then a couple pages later you see the embedded rent growth and it just – you can chart that that's going up.

And as long as we're able to sell these lower growth assets at yields well inside the stock yield that's attractive. Now, how we deploy that capital comes down to a complex set of items based on taxable income and 1031 opportunities and stock price, et cetera.

But it's really a real estate exercise. I want to remind everybody of that. We are very focused on the real estate exercise. But obviously, the equation relates [ph] in the sum (00:18:50) of what do we do with the capital. So it's complex. But right now we think there's opportunities. Heath, if you want to.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

A

I would just say Samir, there isn't a pocket of historical retail capital that hasn't been reignited. So the breadth of the demand is just incredible. And frankly, it's better to be a seller right now than it is to be a buyer.

With that said, we do have some traction on some of these 1031 acquisitions that we've been talking about. So, yeah – the market is very, very constructive right now.

Samir Khanal*Analyst, BofA Securities, Inc.*

Q

Got it. And I guess my second question, Heath, is on the guidance, right, side. You raised same-store low end, high end, but we didn't see a follow through on FFO. Maybe, Heath, you could unpack that. I think that would be helpful. Thanks.

Heath R. Fear*President & Chief Financial Officer, Kite Realty Group*

A

Sure. So on page 5, you'll see that the same-store did boost us up \$0.005 on a full year basis, but then that was offset by a corresponding reduction in a recurring, but unpredictable item.

Basically, that item is still there. It's just being pushed into 2027. So timing-wise we thought it was 2026 and it's being pushed into early 2027. So nothing happening there. So that's why the same-store bump didn't flow through the FFO.

John A. Kite*Chairman & Chief Executive Officer, Kite Realty Group*

A

Other thing I would add to that, Samir, is obviously we held Q2, Q3, Q4, bad debt at 100 basis points. I think the first quarter was closer to 75 basis points, but I think we view it as very early in the year.

I think we're always reticent in the first quarter to really jump on to too much. You've still got 75% of the year to unfold. So I think you can look at it as prudent, in my opinion, to not jump on a lot of these things that may or may not happen.

And I think bad debt and then just recurring but unpredictable are two big categories. I mean, especially on recurring unpredictable. I think if you look at last year, we were like \$21 million. I think our guidance is closer to \$10 million.

So, we'll see how the year plays out. A lot of things left to happen. But the core business is very strong.

Samir Khanal*Analyst, BofA Securities, Inc.*

Q

Got it. Thanks a lot guys.

Operator: Thank you. One moment for our next question. And that will come from the line of Todd Thomas with KeyBanc Capital Markets. Your line is open.

Todd M. Thomas*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah. Hi. Thanks. Good afternoon. Beyond the capital recycling that you have lined up right now and with what's under contract, would you move forward with the dispositions without new investment opportunities lined up? Or is the plan really only to activate incremental dispositions if you have something on the buy side?

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Hey, Todd, I mean, as you know, our goal is always to kind of pair these things. We've got this saying where we like to do stuff in pods buying and selling.

But of course, we're also opportunistic and if we think that there's a really excellent opportunity to recycle out of a lower growth asset at an attractive yield versus other yields then that is possible that we would do that in front of knowing exactly where that capital would go.

Again, this is what a really strong balance sheet affords you that opportunity to be forward thinking. But the goal is to always try to couple these things. So we'll see how that plays out, Todd.

Todd M. Thomas

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then does the current disposition pool, the – I guess the \$145 million, although I think you mentioned the \$12.5 million was included in that in the first quarter. Does that pool include City Center? Can you provide an update on progress for that asset disposition?

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

A

Yeah. It does include City Center, Todd. Listen, we have hoped to transact on City Center by now. But as we said in the past, it's a complicated vertical asset and the plan is still to transact before the end of the year.

Todd M. Thomas

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. All right. Thank you.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Thank you.

Operator: One moment for our next question. That will come from the line of Michael Goldsmith was UBS. Your line is open.

Michael Goldsmith

Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. First question is just on the same-store NOI growth for the quarter, but it sounds like it was pleasantly – you were pleasantly surprised with the upside to that number driven in part by maybe upsides to the overage rent and [ph] the net (00:23:29) recovery.

Is there anything in the backdrop that is driving those numbers maybe higher than you are expected? And maybe what would you kind of see as kind of the run rate number for the second quarter before it re-accelerates as the SNO starts to kick in? Thanks.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

A

Yeah. It was basically the outperformance was ratable between three things, it was bad debt, overage and also that real estate tax reversal. And again, as I said in my opening remarks, you'll see it moderate into the second quarter and then re-accelerate into the back half of the year. So to your earlier point, it was higher than we'd anticipated.

And moving into the back three quarters we still have an opportunity to outperform on bad debt. We had 80 basis points – sorry 75 basis points of bad debt in the quarter. We're still assuming 100. So there's still some things that we hope to be able to outperform in the same-store line as we move throughout the year.

Michael Goldsmith

Analyst, UBS Securities LLC

Q

For the record, I'm not complaining that the number is higher.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

We weren't complaining either. We were happy with it.

Michael Goldsmith

Analyst, UBS Securities LLC

Q

Yeah. And then, you highlighted a significant arbitrage between asset sale yields and your equity buyback yield. Stock has been doing well. Shares are up 8% this year, up 10% in the last month.

So at what point would you think slow or pause your repurchases and have to look into – start to look at some other ways to reallocate capital from here?

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Yeah. I mean, obviously, as we alluded to, that is one of the variables as we move through the year.

As we sit here today, we're still in a pretty good position as it relates to discount to NAV and core FFO yield relative to where we think we can sell assets that we would want to sell. But that's a moving target and we'll see how that goes. It's just kind of one of those things. It is what it is. We'll address it as it comes.

But I think right now our strategy is again, it's really real estate based and future growth based. So we want to figure out how to best do that. If this isn't part of the plan there are other things we can do.

Obviously, last year, we did pay a special dividend. We'll see how that goes in the future. But it's just too many variables to really say, Michael, where that's going to be, tomorrow or a month from now. Heath, you want to add to that.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

A

No, that's great.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

Okay. Thank you.

A

Michael Goldsmith

Analyst, UBS Securities LLC

Thank you very much. Good luck in the second quarter.

Q

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

Thank you.

A

Operator: One moment for our next question. And that will come from the line of Floris van Dijkum with Ladenburg Thalmann.

Floris van Dijkum

Analyst, Ladenburg Thalmann & Co., Inc.

Hey, guys. Thanks. Just curious, the \$36 million SNO pipeline, not all of it is same-store. I think only 84% of it is in the same-store pool.

Q

Could you maybe – is that a Legacy West that's not part of the same-store pool and maybe talk about the upside there and when that will get recognized in same-store?

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

It's really two elements there, Floris. One of it is Legacy West. And we have an annual same-store concept. So Legacy West won't be in the same-store bucket until we hold it for a full calendar year. So you will see it in 2027 as part of the same-store pool.

A

The other piece that's not included in the same-store are the leases that we're executing [ph] allowed it (00:27:04). So those are the two major components outside of the same-store that comprise the same – the signed-not-open pipeline.

Floris van Dijkum

Analyst, Ladenburg Thalmann & Co., Inc.

Got it. And maybe as my follow-up question, I know you put a little thing out there about obviously you've done a lot of anchor repositioning. You've added a number of new grocer concepts to your portfolio, a number of Trader Joe's and a couple of Whole Foods, and you talk about the returns on capital there. Presumably, that's the return on – direct return on invested capital.

Q

Maybe talk about here's the centennial, we were out in Vegas with you guys on your 4X4, I can't remember what it was, so maybe it was NAREIT or maybe ICSC. But obviously, you repositioned one of those boxes into a Whole Foods.

What does that done? What do you typically see in terms of the the knock-on effect to shop leasing and rents in your portfolio when you add one of those grocers to your property? And what would you say would be your fully adjusted return on capital, if you were to include those things in there?

Thomas K. McGowan

President & Chief Operating Officer, Kite Realty Group

A

So Floris, there's no doubt that if we bring in a Trader Joe's, we bring in a Whole Foods. There's tremendous impact and it's just that continual shop that occurs through the day and both of those are tremendous drivers for us.

So without question, when you have a new retailer, a new grocery like that, when new deals are going into committee, it helps tremendously. Plus that consistent shop helps drive additional sales throughout.

So you have the cap rate compression component. And then in addition, you have the lease up through new committee deals, and you're driving sales inside your existing tenant base. So we always find a way to generate strong returns on these boxes.

But if you carry that in, that factor grows incrementally to a number, probably two to three times more than what that would start off with in terms of like 200 basis points, 300 basis points. So it's wildly attractive for us to reposition like that.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Floris, the returns we're generating on capital are like in the 30% range, depends on the deal could be 20%, could be 40%. But generally speaking that's just return on capital spent for that retailer.

We don't look at that relative to the – how that might impact the adjacent space other than the ability, as Tom said, to drive a cap rate down by adding a grocer.

And again, it's not all about that. It's about merchandising too. When you look at adding how much we've done in terms of adding Trader Joe's and adding Whole Foods. Then the next thing the quality of the surrounding shop grows. And maybe that's why our ABR and our signed-not-open is \$28, right, versus the portfolio average of \$23.50, I guess, somewhere close to that. So I think it's definitely moving us in the right direction.

Floris van Dijkum

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Thanks. But by the way, your ABR growth, even year-over-year is 6.5%, which is, I think, pretty juicy. I mean, is that one of the highest growth that you've experienced?

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Yeah. I mean, it's been a pretty good growth rate over the last five years, actually. I don't have it in front of me, but 6.5% is pretty strong. And when you look at our ABR and you add into that our embedded rent growth, and you compare that to the peer group, it doesn't reflect where we trade.

Floris van Dijkum

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Makes sense.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

You bet.

A

Operator: One moment for our next question. And that will come from the line of Michael Mueller with JPMorgan. Your line is open.

Michael W. Mueller

Analyst, JPMorgan Securities LLC

Yeah. Hi. Maybe somewhat of a follow-up. But aside from general portfolio leasing capital, is there any visibility as to how much your annual development or major redevelopment investment could grow to over the next, say, three to five years?

Q

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

Hey, Michael. We don't generally as you know, we don't throw out a number at the beginning of the year and say, we're going to spend X million on development redevelopment, because we don't like people to chase a target versus chasing great opportunities.

A

We've been pretty moderated on that in the last couple of years because of the significant spend that we've had in just the lease up portfolio, which is obviously on a risk adjusted basis, a much higher return.

But as we look out over the next three years, that begins to slowdown in terms of the internal lease up capital, because we're spending about a little over 100 million a year right now over the next two-and-a-half years.

And so when that moderates through this lease up, as Heath said earlier, then all of a sudden you have a lot more choices to deploy free cash flow. And we have a very long history in development and redevelopment and we know how to do it and we know how to judge risk.

So I would say, we will pivot more to that over the next couple of years. And you're going to see us do some smaller projects over the next couple of years. And I think our view is we'd rather have more projects of smaller size than a couple of huge ones.

Right now we have a large one in our development at One Loudoun. But frankly, it's very manageable against a \$7 billion balance sheet. So long winded way of saying, I think we can lean into that as the lease up firms up over the next two years.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

I would add, we shouldn't construe that the lower development spend now with the development opportunity in the portfolio. And lowest hanging fruit is Loudoun. We still have 35 acres of land after we're done with this expansion. I think it includes another 1,100 multifamily units, another 1.7 million square feet of commercial.

A

So we've got lots of opportunities in the portfolio. But as John said, the current priority right now is leasing. And when that spend starts to decline, that pipeline will pick up.

Thomas K. McGowan

President & Chief Operating Officer, Kite Realty Group

A

No doubt. And Loudoun is moving along very nicely in terms of the lease up as well.

Michael W. Mueller

Analyst, JPMorgan Securities LLC

Q

Got it. Okay. Thanks. And second, I apologize if I missed this some place, but what's a range of cap rates for the 1031 and non-core sales?

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

We didn't give an exact cap rate range, Michael. But I think in terms of the 1031, so we continue to see opportunities for stuff that we want to own, very high quality assets, kind of like in the 8% to 9% unlevered IRR range. That's kind of what we're pursuing.

And as we've said before, the type of stuff that we're selling is kind of in the 7% range, depending on what it is. So that's where the trade is currently.

Michael W. Mueller

Analyst, JPMorgan Securities LLC

Q

Got it. Okay. Thank you.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Thank you.

Operator: One moment for our next question. And that will come from the line of Alexander Goldfarb with Piper Sandler. Your line is open.

Alexander Goldfarb

Analyst, Piper Sandler

Q

Hey, good afternoon out there. John, as we look at the SNO pipeline, pretty good ramp from now through 2028. But just sort of curious, is there a way to accelerate this or is a lot of this just depended on there are people already in that space and you have to wait for those leases to expire and then just the time it takes to move for the tenants to build out the space, move in?

Just trying to understand any way to accelerate this timing versus it's structural and there's really not much you can do because of all the moving pieces and perhaps existing leases that are already there.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Yeah. Alex, it's – obviously we're always trying to accelerate the build-outs of these spaces in the SNO pipeline.

The majority of – or a lot of this, I should say, and a lot of this space was former anchor space, right? So that's going to have a longer gestation period. And as you know, those generally on average between lease signing and rent commencement could be 15 to 18 months, depends on what it is, depends on the level of construction.

Also, don't forget that we have to deal with municipalities in multiple markets that slow you down. Despite the narrative that that's changed, I don't think it's changed that much.

So yeah, we like to accelerate that. We absolutely would. I mean, in one regard, you're just pulling forward something you know, you're going to get. But NPV-wise it makes sense. So we're pushing hard to accelerate. But I think it is what it is.

And the good news is the demand is there. The SNO is strong. And as I said earlier, if you look at the rents it really reflects where we're going as a company. So that's a very positive thing to take out of that.

Thomas K. McGowan

President & Chief Operating Officer, Kite Realty Group

A

But be assured, Alex, we are doing everything we can, whether it's permit expedited or starting drawings right out of real estate committee. We try to pull every lever and it's a huge objective around here to move those up.

Alexander Goldfarb

Analyst, Piper Sandler

Q

Between you and John, Tom, I never have to worry about not moving quickly. The second question is, on the [ph] heels of a quorum sale (00:37:01) and you talked about more dispositions, have you sort of outlined how much more of your portfolio you think – I don't want to say as [ph] quorum (00:37:10) like, but how much more doesn't fit as you think about where you want to take the portfolio? Is it still 10% more, 20% more? Or do you think that most of the lower performing assets are gone and now it's really sort of fine tuning based on opportunity?

I'm just trying to figure out how much are sort of definitely we got to sell versus, okay, these are potentials if we have opportunity for something accretive on the other side.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Yeah. I mean, I think obviously we do a robust analysis of the portfolio all the time. There definitely are assets that we believe don't fit the future in KRG, as we talked about in the prepared remarks.

We still have a goal of pushing our embedded rent growth to 2% versus where we are today. So there's work to do there. And these are – some of these assets that we're selling, Alex, are high quality but lower growth and there are a few like you mentioned [ph] quorum (00:38:15) that just didn't fit at all.

And so, there are a handful of properties like that. Probably the bigger number would be the properties that just don't have the growth profile that we're looking for.

And that we also think are potentially a little more tethered to at-risk future tenant issues, right. So there is a portion there, but it's not a huge portion and this is more methodical around the underlying future growth and real estate quality.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

Yeah, I'll just add...

A

Alexander Goldfarb

Analyst, Piper Sandler

Is this like...

Q

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

I'm sorry, Alex. Go ahead.

A

Alexander Goldfarb

Analyst, Piper Sandler

No, you go and then I'll follow up.

Q

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

I was going to say when we started this disposition program, and we did the best we could to ensure, folks, this is not a multiyear program that's going to result in FFO dilution over three, four or five years.

A

This was trying to get this done in 2025 and 2026. And as John said, there's a handful left. And if we can get it done, if we can deploy the proceeds in a prudent manner, we will. But if we don't, that's okay, too. We're always sort of cycling out of one, two, three assets a year and that's sort of the expectation. But if we can get it done this year, we will.

Alexander Goldfarb

Analyst, Piper Sandler

Okay. That's helpful. Listen. Thank you.

Q

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

Thank you.

A

Operator: One moment for our next question. And that will come from the line of Alec Feygin with Baird. Your line is open.

Alec Feygin

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

Hey, thanks for taking my question. So one for me is about Legacy West. Curious how it's performed versus initial expectations and if there's been any incremental opportunities with new tenants expanding from Legacy West to other assets in the portfolio?

Q

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Yeah. Thank you for that. Legacy West has performed marvellously. It's been a great asset for us and our partner. We've made really significant progress in a short period of time on increasing rents, particularly on the retail front.

As you followed, I'm sure, we've announced lots of new leases that we've signed since we bought it. And the mark-to-market on the rents has been exactly what we thought it would be when we acquired the center. The ABR and the retail component was like \$65 a foot, and we're doing deals north of \$100 a foot routinely.

So, that's spectacular. The multifamily side has picked up a lot in the last quarter quite well. The office is really strong. This is really high quality office in a very sought after little slice of a fabulous submarket in Plano. Obviously, AT&T has recently announced their global headquarters there, which is just one of a few major announcements that they've had in Plano.

So we feel really good about that. And in terms of transferring of opportunities to other parts of the portfolio it was another reason that we wanted to add it to our portfolio.

And when you now look at, for example, our top three lifestyle assets, Southlake, Legacy West and One Loudoun, and you look at the NOI it's generating versus the, I think it's about 15% of our ABR now just those three assets but it's like 5% or 10% of our total GLA, it shows you the strength of that.

And now we're doing deals across the portfolio with these high quality tenants that now are very aware of KRG. So it's been a massive win for us, a massive win for our partner and we're looking forward to trying to find more of those opportunities.

Alec Feygin

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

Q

Awesome. That's it for me. Thanks, guys.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

A

Thank you.

Heath R. Fear

President & Chief Financial Officer, Kite Realty Group

A

Thank you.

Operator: One moment for our next question. And that will come from the line of Craig Mailman with Citi. Your line is open.

Craig Mailman

Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys. Can you maybe just go back to your comment about the strength of the operating portfolio to maybe step away from capital recycling for a minute.

Just looking at kind of the percent leased here over the last several quarters. Anchor obviously has been doing well. But small shop, you briefly got over 92% and it's back down slightly below. I mean what's the timeframe or

the outlook internally to get this, maybe to 93%-plus. And what's been kind of the obstacle to ramp it as quickly as you ramped anchor?

Heath R. Fear*President & Chief Financial Officer, Kite Realty Group***A**

We don't guide to occupancy, Craig. But we have said publicly before that, we think by the end of this year we should be at occupancy levels that are approximating our historical highs, right before COVID.

But the good news is that we don't think that that's the ceiling at all. And we've seen a lot of our peers sort of bust through their historical high watermarks and we intend to as well.

At the end of last quarter, we were at 92.1%, I think, in the small shop space, which was 40 basis points away from where we were at our historical high, took a seasonal step back. But we can think, we can at least [ph] wade through (00:43:46) 92.5% to maybe 93% or 94% on the small shop space.

On the anchor side, the step back at this quarter on sequential basis was related to [ph] value city (00:43:58). But again, we are busy backfilling those boxes and making great progress. So we're very, very bullish on our occupancy opportunity.

And again it is the largest and most meaningful opportunity in the peer set, right? So we've got as I said before in the past, everyone's going to peak on their occupancy gains in terms of their same-store. Ours is coming at a different time and we're going to start seeing that in the back half of this year into 2027.

Thomas K. McGowan*President & Chief Operating Officer, Kite Realty Group***A**

And one other thing that we've been doing, Craig, is we've been very proactive in terms of trying to improve the mix. So if somebody coming off of a non-option scenario, I mean, what we'll do right away is, we'll just say, hey, if we can do better, we're going to move them out and end up with a better quality tenant.

So we've been doing a lot of that inside these numbers and we'll continue to do it. But we're absolutely in and up with great decisions and great tenants.

John A. Kite*Chairman & Chief Executive Officer, Kite Realty Group T***A**

Craig, I think you remember me talking a couple of years ago about the fact that we're never going to lease space quickly. We're going to lease space in a very, very diligent way. And that's part of what Tom means is that, can we take deals maybe faster by accepting a tenant that we don't love or rent structure that we don't love, particularly rent growth? Yeah, we could.

But if you look at our statistics relative to the peers. I mean, there's no doubt we were, in my opinion, a market leader in rent growth in the small shop space, right? And if you look at where we were and 2019 versus where we are today in 4% a year, small shop growth, it's incredible in terms of the number of tenants we've been able to convert. It's a 4% or north of 3%, right.

So if you do a bunch of deals at 2% rent growth, you're going to do them faster. But if you're diligent about this and you end up with the right tenants that are growing at 3.5% to 4% in the shops, you're going to thank me for that in a couple of years.

Craig Mailman*Analyst, Citigroup Global Markets, Inc.*

Q

No, that makes sense. I appreciate the the detail there. And then maybe actually shifting back to the capital recycling. John, I think you said \$750 million of kind of sales is what you guys have left. Is that right?

John A. Kite*Chairman & Chief Executive Officer, Kite Realty Group*

A

No. What I said was if you look at what we sold last year and then you combine what Heath pointed out that we are targeting to sell this year, combined that's like I think close to \$750 million. That's what I said there.

So, we'll see if we hit that. We still have to do another \$130 million I think this year to get to that number. And that's just what we have identified, Craig.

Craig Mailman*Analyst, Citigroup Global Markets, Inc.*

Q

Got you. I guess the gist of my question is going to be if you could snap your fingers today, kind of where would the mix of kind of neighborhood, regional power lifestyle ultimately be to where you feel like the risk adjusted returns are maximized?

And maybe as you look at what you would have to sell to get there, kind of how much of it is the more difficult bucket versus there's definitely pockets of capital that would want it and it would be sort of easy to medium difficulty.

John A. Kite*Chairman & Chief Executive Officer, Kite Realty Group T*

A

Yeah. I mean, obviously everybody kind of classifies what's power versus what's a community center, maybe a little differently. But if you look at how we have identified it in our investor presentation, our power is down 500 basis points and we're at about 19% of our portfolio relative to ABR is in power.

We've said we'd like to get that down to, I don't know, 12%, 13%, 14%, but there's some really high quality assets in there. And then if you look at our regional community versus our neighborhood community and shop and grocery, we'd like to pivot that more to the neighborhood side as well. So maybe the same amount, maybe another 5% to 10%.

But really in the end it's not going to be about, oh, we've got this perfect composition on a percentage basis. It's going to be more about the embedded rent growth and the quality of the real estate, Craig.

And again, I would challenge you to look at where we trade, where our ABR is, what are embedded rent growth is and what the higher multiple guys are at. And it is what it is. And as long as it's there, we'll continue to try and take advantage of that in a way that we can.

Certainly, the private institutional investors are well aware of that and well aware of what's going on in our space. And it's odd to me, but it is what it is, which I keep saying. It's odd to me that we wouldn't actually, as a group, trade at a premium for the liquidity, but it's actually vice versa. You're trading at a discount for the liquidity, which is quite odd.

But at any rate, I do think there's real opportunity there to improve that, Craig. But we're going to have to take it one step at a time. We've identified what we have and we'll see. We still got three quarters of the year left.

And as Heath said, if those opportunities avail themselves, we'll try to take advantage of that. And then after the end of this year, then we would think, man, we have – the portfolio composition is really good. And then again, as Heath said, we're just back to the normal paired trades, a couple deals here, a couple deals there.

Craig Mailman

Analyst, Citigroup Global Markets, Inc.

Great. Thanks.

Q

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

Thank you.

A

Operator: Thank you. I'm showing no further questions in the queue at this time. I would like to turn the call back over to Mr. John Kite for any closing remarks.

John A. Kite

Chairman & Chief Executive Officer, Kite Realty Group

Well, I just again want to thank everyone for joining us today and have a great day.

Operator: This concludes today's program. Thank you all for participating. You may now disconnect.

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