

Earnings Call Transcript



Q2 2026



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Call Participants

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President & CFO

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Presentation

Operator

Thank you for standing by. Welcome to the Kite Realty Group's Second Quarter 2026 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Bryan McCarthy, Senior Vice President, Corporate Marketing and Communications. Please go ahead, sir.

Bryan McCarthy

Senior Vice President of Corporate Marketing & Communications

Thank you, and good afternoon, everyone. Welcome to Kite Realty Group's second 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 are 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.

[Operator Instructions] I'll now turn the call to John.

John A. Kite

Chairman of the Board of Trustees & CEO

All right. Thanks, Bryan, and hello, everyone, and thanks for joining us today. Halfway through 2026, KRG's tenant demand remains healthy. Our signed-not-open pipeline remains elevated and the fundamentals underpinning our portfolio have never been more durable. The financial strength and flexibility we created has become one of our most valuable strategic assets.

Over the past 18 months, our capital allocation initiatives, collectively referred to internally as Project Elevate, have focused on pruning lower growth noncore assets to enhance the quality, growth profile and resilience of our portfolio and cash flows.

We have redeployed the resulting capital into higher conviction opportunities that offer the most attractive risk-adjusted returns, while also investing meaningfully in our organization through strategic additions across the platform, all aimed at improving our long-term growth.

Since the start of 2025, we've sold 22 noncore assets for nearly \$1 billion. With each disposition, we reduced our exposure to lower growth formats and at-risk anchors, while concentrating the portfolio in grocery-anchored lifestyle and mixed-use assets.

As detailed on Page 6 of our investor presentation, we've grown our weighted ABR in lifestyle, mixed-use and neighborhood centers by 900 basis points since the start of 2023, matched by a 900-basis point reduction in power and large-format community centers during the same period.

Our portfolio enhancement is reflected in our tenant base, which we have strengthened from both ends. Our top tenant roster is increasingly concentrated in durable high credit operators.

Grocers now represent 1/3 of our top 15 tenant list. Just as telling, 4 watch list tenants have rolled off our top 25 list entirely. By virtue of the dispositions related to Project Elevate, we eliminated 58 at-risk tenant locations, representing over 1 million square feet and more than 200 basis points of ABR.

Tenants like these carry a cost on both sides of the ledger. They put the consistency of our earnings at risk and each one is a potential claim on our capital.

We've been equally disciplined about where we put our capital to use. During the quarter, we acquired 2 high-quality neighborhood centers, Founders Square in Naples and Chastain Market, a Trader Joe's-anchored center in Atlanta, for \$136 million through 1031

exchanges. That brings our acquisition since the start of 2025 to approximately \$612 million, all of it recycled into faster-growing assets.

When our stock trades at a discount to net asset value, buying it back is among the most accretive uses of capital available to us. And we acted decisively during the quarter, purchasing approximately 2.8 million common shares at an average price of \$27.48 per share for approximately \$75 million.

Across 2025 and 2026, we have now repurchased 19.6 million shares for approximately \$475 million at an average price of \$24.20, well inside consensus NAV.

Our reshaped portfolio is performing. Same property NOI grew 3.7% in the second quarter. We executed 128 new and renewal leases totaling approximately 1 million square feet with blended cash spreads of 15.9%, including 28.4% on comparable new leases.

Our lease rate reached 94.8%, up 150 basis points year-over-year, led by a 210 basis point improvement in our anchor lease rate. ABR per square foot climbed to \$23.41, up 2.3% sequentially and 6.3% year-over-year.

Our embedded rent growth climbed to 185 basis points, up nearly 30 basis points since the start of 2024. And our signed-not-open pipeline increased to approximately \$37 million of NOI, representing a 350 basis point spread between our leased and occupied rates.

We also continue to unlock embedded value across our mixed-use platform. This quarter, we commenced the second phase of luxury multifamily at One Loudoun, a 429-unit development within our existing residential joint venture that will begin delivering in 2029, the latest example of the self-funding growth built into our portfolio.

Given the strength of the first half, we're raising our full year same property NOI guidance by 50 basis points at the midpoint to a range of 3% to 4%. We are maintaining our FFO guidance as we prioritize flexibility and optionality over the immediate redeployment of proceeds generated through Project Elevate.

In the near term, our focus is on further strengthening and fortifying our balance sheet, reducing leverage, enhancing liquidity and maintaining dry powder for attractive investment opportunities. While the heavy lifting on Project Elevate is behind us, we still have some work to do.

Our guidance continues to assume a meaningful amount of gross transactional activity remaining in 2026, split between the sale of noncore assets associated with tax losses and 1031 acquisitions, which Heath will detail in a moment.

Simply put, KRG has never been in a stronger position. We have a higher quality portfolio, a more durable growth profile and one of the best balance sheets in the business and a team that executes with discipline and urgency. I want to thank the entire KRG team for getting us here and having the energy and conviction it takes to keep raising the bar.

Turn it over to Heath.

Heath R. Fear
President & CFO

Thank you, and good afternoon. Coming off an extraordinarily active quarter, KRG is on plan and operating from a position of strength. We generated \$0.52 of core FFO per share and \$0.53 of NAREIT FFO per share in the second quarter.

Our same property NOI meaningfully outperformed our internal estimates in the first half of 2026, growing 3.7% in the second quarter and year-to-date. The outperformance was broad-based across better tenant retention, lower bad debt, higher overage rent and stronger net recoveries.

At the same time, we are maintaining our full year core FFO and NAREIT FFO guidance of \$2.06 to \$2.12 per share. This guidance assumes a 2026 same property NOI growth range of 3% to 4%, which is a 50 basis point increase at the midpoint and reflects our year-to-date outperformance.

We are assuming a bad debt reserve of 90 basis points of total revenues at the midpoint. As a reminder, our 90 basis point bad debt assumption applies to the full year and reflects a blend of actual bad debt incurred during the first half of the year and an assumed bad debt rate of 100 basis points of revenue for the second half of the year.

We are further assuming interest expense, net of interest income, excluding unconsolidated joint ventures of \$114.7 million at the midpoint. A nearly \$7 million sequential decline is largely attributable to 2 factors: higher interest income generated from Project

Elevate proceeds being held in 1031 accounts; and the deconsolidation of our One Loudoun Residential joint venture, which I'll address in a moment.

As for the remaining transactional activity in 2026, we are assuming approximately \$225 million of noncore tax loss sales assets and \$110 million of 1031 acquisitions. When considering core FFO guidance in the context of our accelerating same property assumptions, it's important to refer to Page 5 of our investor deck.

On the quarter-over-quarter FFO bridge, you'll see a \$0.02 drag in the line labeled Change in Our Transaction Activity and Assumptions. That line item reflects our decision to capitalize on a constructive transaction environment by expanding Project Elevate to the second portfolio sale that occurred in the second quarter, while also pursuing the sale of additional tax loss assets.

It's worth taking a step back to consider the context. Project Elevate contemplates recycling roughly 14% of our enterprise value, resulting in a platform transformation that an upgraded portfolio quality and improved the durability of our cash flow, while maintaining our fortress balance sheet and having remarkably little impact to our earnings. This was only made possible by our disciplined sources and uses capital allocation strategy.

More specifically, since the start of 2025, we have generated approximately \$1.1 billion of proceeds, including approximately \$973 million from noncore dispositions and approximately \$112 million from the sale of 48% interest in 3 of our operating assets. We currently expect an additional \$225 million of noncore tax loss sales, which will bring total proceeds to approximately \$1.3 billion. Against those sources, we have been disciplined and opportunistic with uses of capital.

Since the start of 2025, we have repurchased approximately 476 million of common shares, funded \$250 million for our share of equity for Legacy West, completed approximately \$204 million of acquisitions and paid a \$31 million special dividend. We also expect to complete approximately \$110 million of additional 1031 acquisitions, which would bring total capital deployment to approximately \$1.1 billion.

When you roll all of that together, our expected sources exceed our uses by \$240 million. We intend to be patient and flexible with that remaining capacity. We will continue to evaluate acquisitions, repurchases and other uses through the same return-focused lens we always have. But in the current environment, our preference is towards balance sheet strength.

I want to spend a moment on the structure behind our new 429-unit luxury multifamily development in One Loudoun as it's a great example of capital efficiency we strive for. Through a tax-free recapitalization of the venture that owns the existing 378 multifamily unit development, we are reducing our ownership from 90% to 55%.

The proceeds of that recapitalization, together with the contribution of land we already own, will fund the majority of our 55% equity interest in the new 429-unit development.

Importantly, that step down in our ownership of the existing stabilized project occurs over time as the new building is constructed. At quarter end, our ownership stood at 77%.

The \$60 million gain you'll see in our financials relate to the recapitalization and deconsolidation of the existing joint venture and is entirely noncash. It is a modest transaction in the context of our enterprise, but reflects the creativity and discipline we bring to every dollar of capital we deploy.

Our balance sheet remains one of the strongest in the sector. As of June 30, our net debt-to-EBITDA was 5.1x, near the low end of our long-term targeted range.

During the quarter, we priced \$345 million of 3.25% exchangeable senior notes due 2032, with proceeds funded on July 2. In connection with the notes, we entered into a capped call transaction that raised the effective conversion price to \$41.91.

We intend to use the majority of those proceeds to retire our \$300 million of unsecured notes due October 2026. The remaining \$100 million maturity coming due in September 2026 will be retired with cash on hand. We have access to over \$1.2 billion in total liquidity, providing us with significant flexibility to continue pursuing value-enhancing opportunities.

Thank you to the entire KRG team for their relentless effort in driving our results. Operator, this concludes our prepared remarks. Please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Todd Thompson from KeyBanc.

Sean Kataoka Glass

KeyBanc Capital Markets Inc., Research Division

This is Sean Glass on for Todd. Can you speak to the impact or improvement on the same-store NOI outlook that can be attributed to the dispositions completed so far year-to-date? Like how much of the same-store NOI growth improvement is from dispositions versus operational upside?

Heath R. Fear

President & CFO

Yes. The contribution from the elimination of those assets is pretty modest. It's only 3 basis points. So if you think about it, that pool was 98% leased, but it had several spaces that were -- it had some rent coming online.

So for this particular period of time, they were not dilutive of same-store. But in general, a reminder, these assets have \$18 of ABR. They grow slower. They have higher watch list concentration. So in the long run, they'd be detractors for same-store. But for this current year, they were only a small contribution, again, just 3 basis points.

Sean Kataoka Glass

KeyBanc Capital Markets Inc., Research Division

Okay. That's helpful. And then you may have touched on this, but is there any expected capitalized interest related to the One Loudoun Residential project? Any notable impact that may have on interest expense as we think about 2027?

Heath R. Fear

President & CFO

Yes, as we're heading into 2027, you will see the capitalized interest related to that project step up. So yes, you'll see some capitalized interest.

Operator

And our next question comes from the line of Andrew Reale from Bank of America.

Andrew Reale

BofA Securities, Research Division

Heath, you had some helpful color in your prepared remarks. But I guess, just going back to the guidance to confirm. Could you just maybe just walk through exactly what is driving the \$0.02 of dilution this quarter in the guidance bridge? I mean, it sounds like a lot of that is just from the timing of the recycling. Just wondering if there might be any other moving pieces?

Heath R. Fear

President & CFO

Andrew, you're exactly right. Listen, we led with the disposition. We had the largest disposition in the second quarter, and it takes time to put those proceeds to use.

So over the course of the next 6 months, we'll do our best. And we've got another \$110 million of assets to buy. We've got to sell another \$225 million, and all of that, when you put into the mixture, the timing ends up being \$0.02 dilutive into 2026.

Andrew Reale

BofA Securities, Research Division

Okay. And then maybe just for the 1031 recycling in the most recent quarter, what was the cap rate spread on those transactions?

John A. Kite

Chairman of the Board of Trustees & CEO

Cap rate spread? You just mean what -- go ahead. I'm sorry, say that again.

Andrew Reale

BofA Securities, Research Division

Just cap rates on what you're buying versus what you're selling, just to give us a sense.

John A. Kite

Chairman of the Board of Trustees & CEO

Yes. Yes. I think -- I mean, as we've said, obviously, we've been without specifics to each individual deal, the Project Elevate, in terms of selling the lower growth and larger format deals, have been kind of in the kind of low to mid-7% cap range and then the acquisitions have been closer in the lower 6% range.

But it's really more about unlevered IRR that we're looking at because there's a lot of moving pieces in these deals. So we're still continuing to get between 8% and 9%. That's our goal in terms of unlevered IRRs.

Operator

And our next question comes from the line of Jamie Feldman from Wells Fargo.

James Colin Feldman

Wells Fargo Securities, LLC, Research Division

So thinking about your economic occupancy at the end of 2Q, it is about 91.2%, which is about 250 basis points below your historic highs and many of your peers are at their historic highs. Can you talk about the opportunity set there longer term and how much the SNO pipeline may contribute to higher absolute occupancy levels in the second half of '26 and into '27 as we think about more regular wage churn going forward?

John A. Kite

Chairman of the Board of Trustees & CEO

Sure. Jamie, I think, obviously, we're -- we've been very diligent in how we've gone about re-leasing the portfolio. We've kind of talked in the past about what led us to those lower lease rates versus the peer group going back to the COVID era.

And now we're obviously getting very close to where we were. In fact, the small shops are basically right there, and we're a couple of hundred basis points under our high watermark on the anchor lease percentage.

I think more importantly, it's kind of the composition of those tenants that we're focused on. And I think that's the whole point of this Elevate exercise. And I hope you take a minute to kind of study our top 25 tenant list and particularly our top 15 and compare that to where it was in the past. It's changed significantly for the good.

And so I feel very good that we've done what we needed to do there, and now we're very focused on just executing the leasing platform. Demand remains strong. Supply is low, and our portfolio is better. So it's a real opportunity to push that.

James Colin Feldman

Wells Fargo Securities, LLC, Research Division

Okay. And then given the progress on Elevate year-to-date and into the back half, what are your thoughts on how much longer it continues into '27? And if you've got the \$0.02 drag on '26, do you think drags continue into next year?

John A. Kite

Chairman of the Board of Trustees & CEO

No, I think as kind of Heath mentioned, I think, in his prepared remarks, and I did as well, I think we're -- the heavy lifting there is done. There's more transactional activity in the back half of '26, which is really more about harvesting some tax losses and doing some 1031s.

But the composition of the portfolio that we have today, we feel very good about it. So as we move into '27, I think we're back to the historical kind of pairing a handful of sales and buys per year. The largescale stuff has pretty much worked its way through. And again, that's why we talk about the composition of our top tenant list and how it's changed so much.

So I think the real issue on that kind of dilution, if you will, is the fact that we are sitting on \$240 million of cash that we haven't deployed. We don't know how that will be deployed. We're going to be opportunistic in terms of what is the most highest return for us there.

As Heath said in his remarks, that could be acquisitions, it could be buybacks. There's multiple things we could do or it could be a reduction of leverage depending on how we feel about the environment. Even as we sit here today, as we get to the end of the year, we'll likely be sub 5.

So we're in a really good position, but we're not looking to continue any kind of dilution throughout remaining years from selling. That said, we've sold over \$1 billion, and we've basically kind of remained flat, which is kind of unbelievable. So we'll build it from there.

Operator

And our next question comes from the line of Floris Van Dijkum from Ladenburg Thalmann.

Floris Gerbrand Hendrik Van Dijkum

Ladenburg Thalmann & Co. Inc., Research Division

I love your cruising speed continues to inch higher. You mentioned something about your -- the \$225 million of additional noncore sales. Maybe if you could touch upon, are they more of the power center assets?

You also still have, I believe, 2 big parcels of land that currently yield 0 that potentially could get sold. Maybe you can give us an update and potentially touch on some of your ground rent income as well as being a potential candidate for disposal going forward.

John A. Kite

Chairman of the Board of Trustees & CEO

Sure. Well, in terms of the remaining sales, you should expect it, Floris, to be similar to what we've been selling. It's essentially just noncore. Obviously, we mentioned that there's some tax loss harvesting opportunities, which would indicate that the property is going to create -- it's going to generate a loss. So I think it's similar. Each deal is a little bit different in size, but similar to what we've been selling.

In terms of land, that's not contemplated in that number. But as we've talked about before, we're always looking to maximize value on any kind of land parcel, and we're working on a couple of opportunities there.

So in terms of -- you mentioned ground leases, I mean, again, nothing is really reflected in that number that would represent ground leases. We're always looking at that.

We -- it's about -- I believe it's about 10% of our revenue. So it's a pretty substantial number. So it's always a possibility to utilize that in terms of cost effective capital. But right now, that is not contemplated in that \$200-plus million of future sales. Heath, do you want to add anything to that?

Heath R. Fear

President & CFO

No. I think you hit it perfectly, John.

Floris Gerbrand Hendrik Van Dijkum

Ladenburg Thalmann & Co. Inc., Research Division

And maybe my follow-up, if I may, on the acquisitions front. I know in the -- over the past quarter, there were a number of larger mixed-use type -- Legacy One type assets in the market. What is your appetite for doing additional transactions? And what is the appetite of your partner potentially if you were to use that in your JV structure?

John A. Kite

Chairman of the Board of Trustees & CEO

Sure. Our appetite is it remains healthy and -- but that's paired against a very rigorous underwriting process. And the market is aggressive.

But when you have an opportunity for a generational type asset, that's what happens. We're certainly aware of the properties that are in the market. We're always engaged. We would love to add other very, very high-quality assets like Legacy West and Southlake and Legacy East and One Loudoun, Downtown Crown, just a few, for example.

We're always looking to add to that. As far as our partner that you referred to, we have a great relationship. They are also very interested in expanding that portfolio, but are like-minded in the way that we diligently underwrite.

Operator

And our next question comes from the line of Michael Mueller from JPMorgan.

Unknown Analyst

You have [indiscernible] on for Mike this afternoon. Just a quick one from us. It looks like your blended cash leasing spreads have been in the low teens, it seems, for the last 12 months. I guess, what's that roughly translating to on a GAAP basis?

John A. Kite

Chairman of the Board of Trustees & CEO

On a GAAP basis, I mean, we don't really give the GAAP number. But generally speaking, it's probably an additional 10% on a GAAP basis, generally speaking. I mean, if you look at what we've been doing on our small shop portfolio, right, it's 3% and 4% growth. So I would say 10% is a pretty reasonable GAAP spread addition.

Operator

And our next question comes from the line of Paulina Rojas-Schmidt from Green Street.

Paulina Alejandra Rojas-Schmidt

Green Street Advisors, LLC, Research Division

My question is about retailer health. Most REITs are describing their tenant rosters as healthier than historically. So do you think we're entering a period of structurally lower tenant failures? Or do you view this year's experience, generally bad debt below expectations, more as a good year, more as an anomaly?

John A. Kite

Chairman of the Board of Trustees & CEO

Paulina, from my perspective, I think we're definitely in a healthier environment for retailers. And I think this has just been a long build since COVID, which we've talked about a lot in terms of how retailers rebuilt their enterprises and became much healthier from a balance sheet perspective.

But obviously, in this business, there's always -- in my personal opinion, there will always be periods of time where outside forces would create a situation that would put more strain on a retailer. And there's also periods of time where retailers themselves put strain on their own business models, whether that be operational or balance sheet pressure.

So it's a great question because it's really a part of why we're doing what we're doing in Project Elevate, which is as we know, slightly different than maybe what some others are doing. And I think our objective internally is that we don't think that hoping is a good strategy. We want to take intense action around creating a portfolio that is independent and withstands any of those outcomes.

So I think, yes, we're in a much better environment. Yes, there's very low supply and the majority of our retailers have rebuilt their businesses and have good platforms and balance sheets. But we don't -- we want to be kind of independent of that, and that's a real big part of what we've been doing.

Thomas K. McGowan

President & COO

And Paulina, I'd add one thing that John talked about the evolution of the retailer and how they've been far more efficient and working on margins, profitability, et cetera. But we have been doing a much better job spending time with these retailers and understanding what their next store evolution looks like and how we can help them and then understanding that that's different than what we have in the portfolio, how then we can basically potentially get rid of some of those stores. So knowledge based on our side of the business has been equally important.

Heath R. Fear
President & CFO

Paulina, I'll add one more thing. So it's not only about us trying to concentrate our ABR and strong retailers during a good part of the cycle. But the other side of that coin is making sure that we're just not filling up those spaces with tenants that have equally suspect credit later on.

So it's one is can we shed some assets and get our exposure to the right place. Number two, let's be super disciplined on underwriting in the way in and making sure that we're taking our time and putting the best balance sheet and the best use in our spaces.

Paulina Alejandra Rojas-Schmidt
Green Street Advisors, LLC, Research Division

Another question that I have is when I think of the 2 buckets that you like the most, neighborhood centers and lifestyle mixed-use centers, for the specific level of quality and type of location you're pursuing in each, how does the return profile compare between the 2 buckets? And to the extent that you see that they differ, where do you think the difference typically stems from? Is it just the entry pricing? Is the growth profile, CapEx?

John A. Kite
Chairman of the Board of Trustees & CEO

Heath, do you want to start with that?

Heath R. Fear
President & CFO

Yes. So Paulina, I think the return profile of both is fairly similar. Obviously, you're looking at super high-quality grocery. In a good MSA, you're looking at super high-quality lifestyle and good MSA.

Those cap rates have -- we've seen those converge recently, particularly you've seen a tremendous amount of compression in lifestyle over the past probably, I don't know, a year as that product type has become very popular.

Not surprising enough, I think we were part of the reason why it became so popular with Legacy West, which kind of gave people pricing discovery. So again, I think their initial yields are fairly similar.

And of course, our return hurdles are the same. We're looking for somewhere between 8% to 9% unlevered return based on the quality of the asset, the location, et cetera. So yes, they're behaving fairly similarly in the transactional markets right now.

John A. Kite
Chairman of the Board of Trustees & CEO

I think, Paulina, the thing I would add is you're right, those are right now our kind of favorite places to invest capital in. And as Heath said, the return characteristics are similar. There's a lot of differences, obviously, in the operational side of the business for both of those.

And I think it's important that you have the capacity to be able to operate assets of the magnitude of, as I said, of a Legacy West and the Southlake. It's quite different operating those assets than it is a neighborhood grocery-anchored shopping center.

Also, the embedded rent growth profiles are different. You have an opportunity to stretch that out in the lifestyle mixed-use. And in the smaller neighborhood centers, we're doing our best we can to get those above 165 basis point cruising speed.

So it's interesting. They're similar, but they're different. And then again, I think just the operational fortitude it takes to run a very high-quality lifestyle center is different. So I think it's important that the market understands that.

Operator

And our next question comes from the line of Alexander Goldfarb from Piper Sandler.

Alexander David Goldfarb
Piper Sandler & Co., Research Division

John, you guys have been repositioning the portfolio for a while. And in the current environment, especially since COVID in the past few years, the strength of the landlords' hand has really improved tremendously.

Has that changed at all? Like I know you're talking about selling centers that have weaker tenants in them. But aren't those weaker tenants, doesn't that provide you future GLA to be able to lease to stronger ones?

Like how do you balance selling a center that could have upcoming vacancy that could go to a better retailer versus exiting it and then not having to deal with, I guess, the year or 2 when the tenant does go out that you have to deal with getting it leased again?

John A. Kite

Chairman of the Board of Trustees & CEO

Yes. That's a great question, Alex. And again, you're right that we have been underway on this for the last 2 years. But as we said on the call, we are nearing the end of that.

So I think we have been making -- you have to look at this from a macro perspective and a micro perspective, right? I think you're kind of referring to the micro, which is each individual asset having a potential vacancy and what is the upside and what potential does that have to give us better returns over time.

But it's also, as we mentioned, as we focused on this and we looked at what we viewed as the future at-risk tenancy, it wasn't really just about rent. It was also about capital, right?

And to the extent -- and that's why we said in the prepared remarks that this was kind of a dual-headed exercise in the sense that this is a potential future interruption to earnings and a latent kind of claim on our capital, right?

So I agree with you that the market is better. The retail environment is better, but we wanted to position ourselves with a portfolio over the next 5-plus years, not over the next 5-plus quarters.

So I think that's the decision we made and have made. And I think it's reflective when you look at, for example, if you just look at the last 5 quarters as this activity has been occurring, our -- I think this is off the top of my head, but if you look at our renewal rents, I think they averaged like \$28, our non-option renewal rents.

And then you look at our new rents, they averaged \$30, and that's against the backdrop of a \$23 average portfolio. So everything we're doing is improving and our growth is going to improve. So I'll give you that it's a somewhat short-term shuffle for a long-term gain, but we feel very strong in that long-term gain.

Alexander David Goldfarb

Piper Sandler & Co., Research Division

And then, John, as you look at the assets that you're selling, and I assume that you've owned these for quite some time, is it the market that has changed, the submarket has changed? Or what's changed in the underwriting from when you originally bought or developed these assets to now that you're selling them? Just trying to understand if it's market, tenant, submarket or just where your future money has been put, you just realize there's faster growth elsewhere?

John A. Kite

Chairman of the Board of Trustees & CEO

Yes, I think it's more of the latter. I think it's more about that we think we can place that capital into a better growing environment with lower risk on a risk-adjusted basis. But it's also that there are individual situations where the market has changed.

And that's something that we've got to stay ahead of. I think, again, I mentioned hope is not a great strategy. I think people -- when things get going well, people are like they like to ride that and say, 'Oh, it's all great.' But you've got to think way ahead. And we've been doing this for a very long time. We've been through a lot of different cycles, and we've been through the worst cycles.

So I think what we're saying is our portfolio will be able to withstand those and grow throughout them. So I think that's it, Alex. It's just like really trying to think ahead. And I know the market has intense pressure to be short-term, and I get it, we all live in it. But we're trying to make decisions that will pay dividends for everybody literally for a very long time.

Operator

And our next question comes from the line of Connor Mitchell from UBS.

Connor Mitchell

UBS Investment Bank, Research Division

Just kind of following up on that line of thinking actually. I was curious about the prior and the future dispositions in Project Elevate, kind of looking at it from a different angle.

Where do you kind of start with the thought of the asset disposition, whether it's the growth outlook, which you've touched upon or more of the format type or even a reduction in the watch list tenant exposure?

John A. Kite

Chairman of the Board of Trustees & CEO

I mean, I hate to say it's all of them. And I think we do start with the idea that our goal is to have the highest quality portfolio that has an embedded growth rate that is exceeding our competition. That is our goal.

And as you know, having raised our embedded growth rate 50 basis points in 2 years -- I think that's right. Or is it 30? 30. Too many basis points in my head. 30 basis points in 2 years. I think that's hard to do on a portfolio of our magnitude.

And so we start there. But then it does become an exercise around the quality of the tenancy, the durability of that cash flow and the capital associated with owning those. I mean, everybody likes to talk about rent spreads, but capital is a very big part of that when you're looking at new rent spreads.

So we're trying to say we want to have the portfolio that's going to generate the most strongest risk-adjusted cash flow. So it's all of those. I hate to be cute with that. I wouldn't rank any one of them. But in the end, we're trying to get that growth rate up to 2%, our embedded growth rate. That's our goal.

Heath R. Fear

President & CFO

This is Heath. I'd just say, listen, when we're at our disposition pool, it's very much a scoring exercise. And some of the things that we're looking at are the things you're mentioning, what's the growth like? How many watch list tenants we have? Is it a market that we like or not like?

So all these things kind of go into a blender and then we rank them and say, "Okay, this seems to be the part of the portfolio that makes the most sense for us to transact on." Is it ready to sell, right? Is it a salable asset right now?

So those are the things that go into it. But to John's point, the main goal here was to ensure that we are going to loft our growth to keep having that embedded growth pile improve over time and to make sure that we're not having earnings hiccups by having problems with watch list tenants.

John A. Kite

Chairman of the Board of Trustees & CEO

Yes. I'll also point back to what Tom said earlier, what feedback are we getting from our customers, our tenants, right? And where are they positioned to grow.

And we're talking to them, as Tom said, well in advance of these decisions, and we might learn some things from 2 or 3 tenants over a few meetings that would say, you know what, maybe the long-term prospect for that property is not as good as we thought it was.

Connor Mitchell

UBS Investment Bank, Research Division

Okay. Really appreciate all the color there. And then just kind of switching gears a little bit. The same-property NOI has been pretty strong in the past couple of quarters, 3.7% and 3.6%, and you raised guidance.

But just looking at kind of the implications for the back half, the midpoint, it would seem that we would expect a deceleration. And Heath, I know you gave a lot of color in your opening remarks.

Can you just kind of dive back into some of those assumptions, whether that's the 100 bps of bad debt into the back half or something else that I may have missed?

Heath R. Fear

President & CFO

Yes. I mean, the slight deceleration, let's call it, flat into the back half of the year is simply this idea that we outperformed in the first part of the year. So nothing happening in the back half that we weren't expecting.

But again -- and the great thing about the first half outperformance is that it was really organic. It was core items. It was our -- it was better retention, it was better net recoveries, better overage.

So we were just firing on all cylinders across the portfolio, which allowed us to print that 3.7% number. I did say at the beginning of the year, I thought we'd be moderating into the first half and accelerating into the back half. However, we did really well in the first half and going to continue that momentum into the back half.

Connor Mitchell

UBS Investment Bank, Research Division

Yes. Slight deceleration.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to John Kite, CEO, for any further remarks.

John A. Kite

Chairman of the Board of Trustees & CEO

Yes, I just want to thank everybody for taking the time today, and we really appreciate your interest in the company. Look forward to seeing you soon.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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