

KITE REALTY GROUP TRUST
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x 1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^o 1934

For the transition period from _____ to _____

Commission File Number: 001-32268 (Kite Realty Group Trust)
Commission File Number: 333-202666-01 (Kite Realty Group, L.P.)

Kite Realty Group Trust
Kite Realty Group, L.P.
(Exact Name of Registrant as Specified in its Charter)
Maryland (Kite Realty Group Trust) 11-3715772
Delaware (Kite Realty Group, L.P.) 20-1453863
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

30 S. Meridian Street, Suite 1100
Indianapolis, Indiana 46204
(Address of principal executive offices) (Zip code)

Telephone: (317) 577-5600
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Kite Realty Group Trust Yes No Kite Realty Group, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Kite Realty Group Trust Yes No Kite Realty Group, L.P. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Kite Realty Group Trust:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Kite Realty Group, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Kite Realty Group Trust Yes No Kite Realty Group, L.P. Yes No

The number of Common Shares of Kite Realty Group Trust outstanding as of August 2, 2017 was 83,594,250 (\$.01 par value).

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2017 of Kite Realty Group Trust, Kite Realty Group, L.P. and its subsidiaries. Unless stated otherwise or the context otherwise requires, references to "Kite Realty Group Trust" or the "Parent Company" mean Kite Realty Group Trust, and references to the "Operating Partnership" mean Kite Realty Group, L.P. and its consolidated subsidiaries. The terms "Company," "we," "us," and "our" refer to the Parent Company and the Operating Partnership, collectively, and those entities owned or controlled by the Parent Company and/or the Operating Partnership.

The Operating Partnership is engaged in the ownership and operation, acquisition, development and redevelopment of high-quality neighborhood and community shopping centers in select markets in the United States. The Parent Company is the sole general partner of the Operating Partnership and as of June 30, 2017 owned approximately 97.7% of the common partnership interests in the Operating Partnership ("General Partner Units"). The remaining 2.3% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") were owned by the limited partners.

We believe combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into this single report benefits investors by:

- enhancing investors' understanding of the Parent Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminating duplicative disclosure and providing a more streamlined and readable presentation of information because a substantial portion of the Company's disclosure applies to both the Parent Company and the Operating Partnership;
- and
- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important to understand the few differences between the Parent Company and the Operating Partnership in the context of how we operate as an interrelated consolidated company. The Parent Company has no material assets or liabilities other than its investment in the Operating Partnership. The Parent Company issues public equity from time to time but does not have any indebtedness as all debt is incurred by the Operating Partnership. In addition, the Parent Company currently does not nor does it intend to guarantee any debt of the Operating Partnership. The Operating Partnership has numerous wholly-owned subsidiaries, and it also owns interests in certain joint ventures. These subsidiaries and joint ventures own and operate retail shopping centers and other real estate assets. The Operating Partnership is structured as a partnership with no publicly-traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for General Partner Units, the Operating Partnership generates the capital required by the business through its operations, its placement of indebtedness and the issuance of Limited Partner Units to third parties.

Shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of the Parent Company and those of the Operating Partnership. In order to highlight this and other differences between the Parent Company and the Operating Partnership, there are separate sections in this report, as applicable, that separately discuss the Parent Company and the Operating Partnership, including separate financial statements and separate Exhibit 31 and 32 certifications. In the sections that combine disclosure of the Parent Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the collective Company.

KITE REALTY GROUP TRUST AND KITE REALTY GROUP, L.P. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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Part I. FINANCIAL INFORMATION

Item 1.

Kite Realty Group Trust
 Consolidated Balance Sheets
 (Unaudited)

(in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
Assets:		
Investment properties, at cost	\$3,939,999	\$ 3,996,065
Less: accumulated depreciation	(608,233)	(560,683)
	3,331,766	3,435,382
Cash and cash equivalents	27,635	19,874
Tenant and other receivables, including accrued straight-line rent of \$29,818 and \$28,703 respectively, net of allowance for uncollectible accounts	52,270	53,087
Restricted cash and escrow deposits	8,717	9,037
Deferred costs and intangibles, net	119,699	129,264
Prepaid and other assets	10,188	9,727
Total Assets	\$3,550,275	\$ 3,656,371
Liabilities and Equity:		
Mortgage and other indebtedness, net	\$1,675,064	\$ 1,731,074
Accounts payable and accrued expenses	88,482	80,664
Deferred revenue and intangibles, net and other liabilities	103,302	112,202
Total Liabilities	1,866,848	1,923,940
Commitments and contingencies	—	—
Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests	73,051	88,165
Equity:		
Kite Realty Group Trust Shareholders' Equity:		
Common Shares, \$.01 par value, 225,000,000 shares authorized, 83,595,490 and 83,545,398 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	836	835
Additional paid in capital and other	2,067,795	2,062,360
Accumulated other comprehensive income (loss)	736	(316)
Accumulated deficit	(459,689)	(419,305)
Total Kite Realty Group Trust Shareholders' Equity	1,609,678	1,643,574
Noncontrolling Interests	698	692
Total Equity	1,610,376	1,644,266
Total Liabilities and Equity	\$3,550,275	\$ 3,656,371

The accompanying notes are an integral part of these consolidated financial statements.

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Kite Realty Group Trust
 Consolidated Statements of Operations and Comprehensive Income
 (Unaudited)
 (in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue:				
Minimum rent	\$68,395	\$68,455	\$137,341	\$135,918
Tenant reimbursements	18,521	17,006	37,091	35,161
Other property related revenue	5,733	2,114	8,330	5,046
Total revenue	92,649	87,575	182,762	176,125
Expenses:				
Property operating	12,139	11,346	25,091	23,538
Real estate taxes	11,228	10,503	21,559	21,637
General, administrative, and other	5,488	4,856	10,958	10,147
Transaction costs	—	2,771	—	2,771
Impairment charge	—	—	7,411	—
Depreciation and amortization	42,710	43,841	88,540	86,082
Total expenses	71,565	73,317	153,559	144,175
Operating income	21,084	14,258	29,203	31,950
Interest expense	(16,433)	(15,500)	(32,878)	(30,825)
Income tax (expense) benefit of taxable REIT subsidiary	(3)	(338)	30	(748)
Other expense, net	(80)	(110)	(219)	(94)
Income (loss) from continuing operations	4,568	(1,690)	(3,864)	283
Gains on sales of operating properties	6,290	194	15,160	194
Consolidated net income (loss)	10,858	(1,496)	11,296	477
Net income attributable to noncontrolling interests	(678)	(399)	(1,110)	(971)
Net income (loss) attributable to Kite Realty Group Trust common shareholders	\$10,180	\$(1,895)	\$10,186	\$(494)
Net income (loss) per common share - basic & diluted	\$0.12	\$(0.02)	\$0.12	\$(0.01)
Weighted average common shares outstanding - basic	83,585,736	83,375,765	83,575,587	83,362,136
Weighted average common shares outstanding - diluted	83,652,628	83,375,765	83,640,327	83,362,136
Common dividends declared per common share	\$0.3025	\$0.2875	\$0.6050	\$0.5750
Consolidated net income (loss)	\$10,858	\$(1,496)	\$11,296	\$477
Change in fair value of derivatives	(420)	(2,619)	1,076	(9,932)
Total comprehensive income (loss)	10,438	(4,115)	12,372	(9,455)
Comprehensive income attributable to noncontrolling interests	(668)	(340)	(1,134)	(744)
Comprehensive income (loss) attributable to Kite Realty Group Trust	\$9,770	\$(4,455)	\$11,238	\$(10,199)

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group Trust
 Consolidated Statement of Shareholders' Equity
 (Unaudited)
 (in thousands, except share data)

	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
	Shares	Amount				
Balances, December 31, 2016	83,545,398	\$ 835	\$2,062,360	\$ (316)	\$(419,305)	\$1,643,574
Stock compensation activity	50,092	1	2,597	—	—	2,598
Other comprehensive income attributable to Kite Realty Group Trust	—	—	—	1,052	—	1,052
Distributions declared to common shareholders	—	—	—	—	(50,570)	(50,570)
Net income attributable to Kite Realty Group Trust	—	—	—	—	10,186	10,186
Acquisition of partner's noncontrolling interest in Fishers Station operating property	—	—	(3,750)	—	—	(3,750)
Adjustment to redeemable noncontrolling interests	—	—	6,588	—	—	6,588
Balances, June 30, 2017	83,595,490	\$ 836	\$2,067,795	\$ 736	\$(459,689)	\$1,609,678

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group Trust
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Consolidated net income	\$11,296	\$477
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Straight-line rent	(2,420)	(2,842)
Depreciation and amortization	89,749	87,713
Gains on sales of operating properties	(15,160)	(194)
Impairment charge	7,411	—
Provision for credit losses	1,790	1,291
Compensation expense for equity awards	3,122	2,573
Amortization of debt fair value adjustment	(1,486)	(2,128)
Amortization of in-place lease liabilities, net	(1,800)	(3,252)
Changes in assets and liabilities:		
Tenant receivables and other	(1,606)	3,456
Deferred costs and other assets	(7,109)	(5,917)
Accounts payable, accrued expenses, deferred revenue and other liabilities	(2,688)	(232)
Net cash provided by operating activities	81,099	80,945
Cash flows from investing activities:		
Capital expenditures, net	(34,947)	(44,223)
Net proceeds from sales of operating properties	76,076	139
Collection of note receivable	—	500
Change in construction payables	(1,598)	(1,260)
Net cash provided by (used in) investing activities	39,531	(44,844)
Cash flows from financing activities:		
Repurchases of common shares upon the vesting of restricted shares	(780)	(755)
Acquisition of partner's interest in Fishers Station operating property	(3,750)	—
Loan proceeds	54,200	178,970
Loan transaction costs	—	(887)
Loan payments	(109,933)	(160,597)
Distributions paid – common shareholders	(50,553)	(46,676)
Distributions paid – redeemable noncontrolling interests	(2,053)	(1,941)
Distributions to noncontrolling interests	—	(193)
Net cash used in financing activities	(112,869)	(32,079)
Net change in cash and cash equivalents	7,761	4,022
Cash and cash equivalents, beginning of period	19,874	33,880
Cash and cash equivalents, end of period	\$27,635	\$37,902

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group, L.P. and subsidiaries
Consolidated Balance Sheets
(unaudited)
(in thousands, except unit data)

	June 30, 2017	December 31, 2016
Assets:		
Investment properties, at cost	\$3,939,999	\$3,996,065
Less: accumulated depreciation	(608,233)	(560,683)
	3,331,766	3,435,382
Cash and cash equivalents	27,635	19,874
Tenant and other receivables, including accrued straight-line rent of \$29,818 and \$28,703 respectively, net of allowance for uncollectible accounts	52,270	53,087
Restricted cash and escrow deposits	8,717	9,037
Deferred costs and intangibles, net	119,699	129,264
Prepaid and other assets	10,188	9,727
Total Assets	\$3,550,275	\$3,656,371
Liabilities and Equity:		
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Accounts payable and accrued expenses	88,482	80,664
Deferred revenue and intangibles, net and other liabilities	103,302	112,202
Total Liabilities	1,866,848	1,923,940
Commitments and contingencies	—	—
Redeemable Limited Partners' and other redeemable noncontrolling interests	73,051	88,165
Partners Equity:		
Parent Company:		
Common equity, 83,595,490 and 83,545,398 units issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1,608,942	1,643,890
Accumulated other comprehensive income (loss)	736	(316)
Total Partners Equity	1,609,678	1,643,574
Noncontrolling Interests	698	692
Total Equity	1,610,376	1,644,266
Total Liabilities and Equity	\$3,550,275	\$3,656,371

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Kite Realty Group, L.P. and subsidiaries
 Consolidated Statements of Operations and Comprehensive Income
 (Unaudited)

(in thousands, except unit and per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Minimum rent	\$68,395	\$68,455	\$137,341	\$135,918
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