KITE REALTY GROUP TRUST
Form 10-K
March 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x	Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2009
o	Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ___________to___________ Commission File Number: 001-32268

Kite Realty Group Trust
(Exact name of registrant as specified in its charter)

Maryland	11-3715772
(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)

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

Title of each class	Name of each exchange on which registered
Common Shares, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes o No x

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. Yes x No o

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). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x	Non-accelerated filer (do not check if a smaller reporting company)	o	Smaller reporting company	o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x

The aggregate market value of the voting shares held by non-affiliates of the Registrant as the last business day of the Registrant's most recently completed second quarter was $181.6 million based upon the closing price of $2.92 per share on the New York Stock Exchange on such date.

The number of Common Shares outstanding as of March 5, 2010 was 63,186,339 ($.01 par value).

Documents Incorporated by Reference

Portions of the Proxy Statement relating to the Registrant's Annual Meeting of Shareholders, scheduled to be held on May 4, 2010, to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

KITE REALTY GROUP TRUST

Annual Report on Form 10-K
For the Fiscal Year Ended
December 31, 2009

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PART I

ITEM 1. BUSINESS

Unless the context suggests otherwise, references to "we," "us," "our" or the "Company" refer to Kite Realty Group Trust and our business and operations conducted through our directly or indirectly owned subsidiaries, including Kite Realty Group, L.P., our operating partnership (the "Operating Partnership"). References to "Kite Property Group" or the "Predecessor" mean our predecessor businesses.

Overview

We are a full-service, vertically integrated real estate company engaged in the ownership, operation, management, leasing, acquisition, construction, expansion and development and redevelopment of neighborhood and community shopping centers and certain commercial real estate properties in selected markets in the United States. We also provide real estate facility management, construction, development and other advisory services to third parties.

We conduct all of our business through our Operating Partnership, of which we are the sole general partner. As of December 31, 2009, we held an approximate 89% interest in our Operating Partnership. Limited partners owned the remaining 11% of the interests in our Operating Partnership at December 31, 2009.

As of December 31, 2009, we owned interests in a portfolio of 51 retail operating properties totaling approximately 7.9 million square feet of gross leasable area (including approximately 2.9 million square feet of non-owned anchor space). Our retail operating portfolio was 90.1% leased as of December 31, 2009 to a diversified retail tenant base, with no single retail tenant accounting for more than 3.3% of our total annualized base rent. In the aggregate, our largest 25 tenants account for approximately 41% of our annualized base rent as of December 31, 2009. See Item 2, "Properties" for a list of our top 25 tenants by annualized base rent.

We also own interests in three commercial (office/industrial) operating properties totaling approximately 0.5 million square feet of net rentable area and an associated parking garage, all located in the state of Indiana. The occupancy of our commercial operating portfolio was 96.2% as of December 31, 2009.

As of December 31, 2009, we also had an interest in seven retail properties in our development and redevelopment pipelines. Upon completion, our development and redevelopment properties are anticipated to have approximately 1.1 million square feet of gross leasable area (including approximately 0.3 million square feet of non-owned anchor space). In addition to our current development and redevelopment pipelines, we have a "shadow" development pipeline which includes land parcels that are undergoing pre-development activities and are in various stages of preparation for construction to commence, including pre-leasing activity and negotiations for third-party financings. As of December 31, 2009, this shadow pipeline consisted of six projects that are expected to contain approximately 2.8 million square feet of total gross leasable area (including non-owned anchor space) upon completion.

In addition, as of December 31, 2009, we owned interests in various land parcels totaling approximately 95 acres. These parcels are classified as "Land held for development" in the accompanying consolidated balance sheets and may be used for future expansion of existing properties, development of new retail or commercial properties or sold to third parties.

Our operating portfolio, current development and redevelopment pipelines and land parcels are located in the states of Florida, Georgia, Illinois, Indiana, New Jersey, North Carolina, Ohio, Oregon, Texas and Washington.

Difficult economic conditions during the last two years have had a negative impact on consumer confidence and spending. This, in turn, is causing segments of the retail industry to be negatively impacted as retailers struggle to sell goods and services. As an owner and developer of community and neighborhood shopping centers, our performance is directly linked to economic conditions in the retail industry in those markets where our operating centers and development properties are located. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further discussion of the current economic conditions and their impact on us.

Significant 2009 Activities

Financing and Capital Raising Activities. As discussed in more detail below in "Business Objectives and Strategies," our primary business objectives are to generate increasing cash flow, achieve long-term growth and maximize shareholder value primarily through the operation, development, redevelopment and acquisition of well-located community and neighborhood shopping centers. However, as discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," current economic and financial market conditions have created a need for most REITs, including us, to place a significant amount of emphasis on our financing and capital preservation strategy. Therefore, our primary objective recently has been, and in the future will continue to be, the strengthening of our balance sheet, managing of our debt maturities and conservation of cash. We ended the year 2009 with approximately $87 million of combined cash and borrowing capacity on the unsecured revolving credit facility and, as of February 17, 2010, have extended all of our 2010 debt maturities. We will remain focused on 2011 refinancing activity and will continue to aggressively manage our operating portfolio.

During 2009, we successfully completed various financing, refinancing and capital-raising activities. As a result of these actions, we reduced the amount outstanding under our unsecured revolving credit facility to $78 million at December 31, 2009 from $105 million at December 31, 2008 and paid down the balances of various other loans. The significant financing, refinancing and capital raising activities completed during 2009 included the following:

New Financings in 2009

- Permanent financing of $15.4 million was placed on the Eastgate Pavilion operating property in Cincinnati, Ohio, a previously unencumbered property. This variable rate loan bears interest at LIBOR + 295 basis points and matures in April 2012. We simultaneously hedged this loan to fix the interest rate at 4.84% for the full term; and

- A construction loan in the amount of $10.9 million was placed on the Eddy Street Commons development property in South Bend, Indiana to finance the construction of a limited service hotel in which we have a 50% interest. This joint venture entity is unconsolidated in the accompanying consolidated financial statements. The construction loan bears interest at a rate of LIBOR + 315 basis points and matures in August 2014.

Refinancings & Maturity Date Extensions in 2009

- The $8.2 million fixed rate loan on the Bridgewater Crossing operating property in Indianapolis, Indiana was refinanced with a variable rate loan bearing interest at LIBOR + 185 basis points and maturing in June 2013;

- The maturity date of the $31.4 million variable rate construction loan on the Cobblestone Plaza development property in Ft. Lauderdale, Florida was extended to March 2010 at an interest rate of LIBOR + 250 basis points;

- The $4.1 million variable rate loan on the Fishers Station operating property in Indianapolis, Indiana was refinanced at an interest rate of LIBOR + 350 basis points and maturing in June 2011;

- The maturity date of the $9.4 million construction loan on our Delray Marketplace development property in Delray Beach, Florida was extended to June 2011 at an interest rate of LIBOR + 300 basis points;

- The maturity date of the variable rate loan on the $11.9 million Beacon Hill operating property in Crown Point, Indiana was extended to March 2014 at an interest rate of LIBOR + 125 basis points;

- The $15.8 million fixed rate loan on our Ridge Plaza operating property in Oak Ridge, New Jersey was refinanced with a permanent loan in the same amount. This loan has a maturity date of January 2017 and bears interest at a

rate of LIBOR + 325 basis points. We simultaneously hedged this loan to fix the interest rate at 6.56% for the full term;

- The maturity date of the $17.8 million variable rate loan on our Tarpon Springs Plaza operating property in Naples, Florida was extended to January 2013 at an interest rate of LIBOR + 325 basis points; and

  - The maturity date of the $14.0 million variable rate loan on our Estero Town Commons operating property in Naples, Florida was extended to January 2013 at an interest rate of LIBOR + 325 basis points.

In addition, in the first quarter of 2010, we completed the following financing activities:

- The maturity date of the $14.9 million variable rate loan on the Shops at Rivers Edge operating property in Indianapolis, Indiana was extended to February 2013 at an interest rate of LIBOR + 400 basis points;

- The maturity date of the $30.9 million variable rate construction loan on the Cobblestone Plaza development property was extended to February 2013 at an interest rate of LIBOR + 350 basis points; and

- The maturity date of the $11.0 million construction loan on the South Elgin Commons property in a suburb of Chicago was extended to September 2013 at an interest rate of LIBOR + 325 basis points.

Construction Financing

- Draws totaling approximately $18.8 million were made on the variable rate construction loan at the Eddy Street Commons development project; and

- We used proceeds from our unsecured revolving credit facility, other borrowings and cash totaling approximately $30.0 million for other development and redevelopment activities.

Repayments of Outstanding Indebtedness

- We used approximately $57 million of proceeds from our May 2009 common share offering to pay down the outstanding balance on our unsecured revolving credit facility;

- We repaid the $11.8 million fixed rate loan on our Boulevard Crossing operating property in Kokomo, Indiana and contributed the related asset to the unsecured revolving credit facility collateral pool; and

- In addition, we partially paid down the balances of various permanent and construction loans in 2009 in connection with the extensions of their respective maturity dates. The aggregate amount of such paydowns was $32.4 million in 2009.

Other Financing-Related Activities

- We utilized our unsecured revolving credit facility to contribute approximately $8.8 million of equity to our Parkside Town Commons unconsolidated joint venture property in Raleigh, North Carolina. Our joint venture partner also made a contribution as a means to reduce the joint venture’s outstanding variable rate debt;

- We placed an interest rate hedge on the $20.0 million variable rate loan maturing in December 2011 on our Glendale Town Center operating property in Indianapolis, Indiana. This hedge fixed the interest rate at 4.40% for the full term; and

- We placed an interest rate hedge on the $19.7 million variable rate loan maturing in December 2011on our Bayport Commons operating property in Oldsmar, Florida. This hedge fixed the interest rate at 4.48% for the full term;

Common Equity Offering

- In May 2009, we completed an offering of 28,750,000 common shares at an offering price of $3.20 per share for net proceeds of approximately $87.5 million. Approximately $57 million of the net proceeds were used to reduce the outstanding balance on our unsecured revolving credit facility. The remaining proceeds were initially retained and a portion subsequently used to retire outstanding indebtedness as described above.

2009 Development and Redevelopment Activities

- In the second quarter of 2009, we completed South Elgin Commons, Phase I, a 45,000 square foot LA Fitness facility located in a suburb of Chicago, Illinois, and transitioned it into our operating portfolio;

- We partially completed the construction of Cobblestone Plaza, a 138,000 square foot neighborhood shopping center located in Ft. Lauderdale, Florida. This property was 73.9% leased or committed as of December 31, 2009 and is anchored by Whole Foods, Staples, and Party City; and

- We substantially completed the construction of the retail and office components of Eddy Street Commons, Phase I, a 465,000 square foot center located in South Bend, Indiana that includes a 300,000 square foot non-owned multi-family component. This project was 72.4% leased or committed as of December 31, 2009 and is anchored by Follett Bookstore and the University of Notre Dame.

- No new development projects were commenced in 2009.

As of December 31, 2009, we had a redevelopment pipeline that included five properties undergoing various stages of redevelopment:

- Bolton Plaza, Jacksonville, Florida. This 173,000 square foot neighborhood shopping center was previously anchored by Wal-Mart. We recently executed a 66,500 square foot lease with Academy Sports & Outdoors to anchor this center and expect this tenant to open during the second half of 2010. We currently estimate the cost of this redevelopment to be approximately $5.7 million;

- Coral Springs Plaza, Boca Raton, Florida. In early 2009, Circuit City declared bankruptcy and vacated this center. We recently executed a 47,000 square foot lease with Toys “R” Us/Babies “R” Us to occupy 100% of this center. We expect this tenant to open during the second half of 2010. We currently estimate the cost of this redevelopment to be approximately $4.5 million;

- Courthouse Shadows, Naples, Florida. In 2008, we transferred this 135,000 square foot neighborhood shopping center from our operating portfolio to our redevelopment pipeline. We intend to modify the existing facade and pylon signage and upgrade the landscaping and lighting. In 2009, Publix purchased the lease of the former anchor tenant and made certain improvements on the space. We currently anticipate our total investment in the redevelopment at Courthouse Shadows will be approximately $2.5 million;

- Four Corner Square, Seattle, Washington. In 2008, we transferred this 29,000 square foot neighborhood shopping center from our operating portfolio to our redevelopment pipeline. In addition to the existing center, we also own an adjacent ten acres of land in our shadow pipeline that may be used as part of the redevelopment. We currently estimate the cost of this redevelopment to be approximately $0.5 million; and

- Shops at Rivers Edge, Indianapolis, Indiana. In 2008, we purchased this 111,000 square foot neighborhood shopping center with the intent to redevelop it. The current anchor tenant’s lease at this property expires on March 31, 2010. The tenant may continue to occupy the space for a period of time while the Company markets the space to several potential anchor tenants. We currently estimate the cost of this redevelopment to be approximately $2.5 million which may increase depending on the outcome of current negotiations with potential anchor tenants.

- No new redevelopment projects were commenced in 2009.

2009 Property Dispositions

In 2009, as part of our regular quarterly review, we determined that it was appropriate to write off the net book value on the Galleria Plaza operating property in Dallas, Texas and recognize a non-cash impairment charge of $5.4 million. Our estimated future cash flows, which considered recent negative property-specific events, were anticipated to be insufficient to recover the carrying value due to significant ground lease obligations and expected future required capital expenditures. We conveyed the title to the property to the ground lessor in the fourth quarter of 2009.

2009 Cash Distributions

In 2009, we declared quarterly per share cash distributions for the following periods:

First Quarter	$	0.1525
Second Quarter	$	0.0600
Third Quarter	$	0.0600
Fourth Quarter (paid in January 2010)	$	0.0600
Full Year	$	0.3325

Business Objectives and Strategies

Our primary business objectives are to increase the cash flow and consequently the value of our properties, achieve sustainable long-term growth and maximize shareholder value primarily through the operation, development, redevelopment and select acquisition of well-located community and neighborhood shopping centers. We invest in properties where cost effective renovation and expansion programs, combined with effective leasing and management strategies, can combine to improve the long-term values and economic returns of our properties. The Company believes that certain of its properties represent opportunities for future renovation and expansion.

We seek to implement our business objectives through the following strategies, each of which is more completely described in the sections that follow:

- Operating Strategy: Maximizing the internal growth in revenue from our operating properties by leasing and re-leasing those properties to a diverse group of retail tenants at increasing rental rates, when possible, and redeveloping certain properties to make them more attractive to existing and prospective tenants or to permit additional or more productive uses of the properties;

- Growth Strategy: Using debt and equity capital prudently to redevelop or renovate our existing properties and to selectively acquire and develop additional shopping centers on land parcels that we currently own where we project that investment returns would meet or exceed internal benchmarks for above average returns; and

- Financing and Capital Preservation Strategy: Financing our capital requirements with borrowings under our existing credit facility and newly issued secured debt, internally generated funds and proceeds from selling properties that no longer fit our strategy, investment in strategic joint ventures and by accessing the public securities markets when market conditions permit.

Operating Strategy. Our primary operating strategy is to maximize rents and maintain or increase occupancy levels by attracting and retaining a strong and diverse tenant base. Most of our properties are in regional and neighborhood trade areas with attractive demographics, which has allowed us to maintain and, in some cases, increase occupancy and rental rates. We seek to implement our operating strategy by, among other things:

- maintaining efficient leasing and property management strategies to emphasize and maximize rent growth and cost-effective facilities;

- maintaining a diverse tenant mix in an effort to limit our exposure to the financial condition of any one tenant;

- maintaining strong tenant and retailer relationships in order to avoid rent interruptions and reduce marketing, leasing and tenant improvement costs that result from re-tenanting space;

- maximizing the occupancy of our existing operating portfolio;

- increasing rental rates upon the renewal of expiring leases or re-leasing space to new tenants while minimizing vacancy to the extent possible; and

- taking advantage of under-utilized land or existing square footage, or reconfiguring properties for better use.

We employed our operating strategy in 2009 in a number of ways, including maintaining a diverse retail tenant mix with no tenant accounting for more than 3.3% of our annualized base rent. See Item 2, “Properties” for a list of our top tenants by gross leasable area and annualized base rent. We also had a renewed focus on tenant leasing in 2009 and, as a part of that focus, we hired a new executive in April 2009 who has substantial industry experience and is

dedicated to developing and managing our leasing strategy. This new leasing executive implemented a number of key initiatives to strengthen our overall leasing program, resulting in the execution of 735,000 square feet of new and renewal leases during 2009, which is the most square feet leased in a single year since we became a public company in 2004.

Growth Strategy. While we are focused on conserving capital in the current difficult economic environment, our growth strategy includes the selective deployment of resources to projects that are expected to generate investment returns that meet or exceed our expectations. We intend to implement our investment strategy in a number of ways, including:

- evaluating redevelopment and renovation opportunities that we believe will make our properties more attractive for leasing or re-leasing to tenants at increased rental rates where possible;

- disposing of selected assets that no longer meet our long-term investment criteria and recycling the capital into assets that provide maximum returns and upside potential in desirable markets; and
- selectively pursuing the acquisition of retail properties and portfolios in markets with attractive demographics which we believe can support retail development and therefore attract strong retail tenants.

In evaluating opportunities for potential development, redevelopment, acquisition and disposition, we consider a number of factors, including:

- the expected returns and related risks associated with investments in these potential opportunities relative to our combined cost of capital to make such investments;
- the current and projected cash flow and market value of the property, and the potential to increase cash flow and market value if the property were to be successfully redeveloped;
- the price being offered for the property, the current and projected operating performance of the property, the tax consequences of the sale and other related factors;