KITE REALTY GROUP TRUST
Form 10-K
February 27, 2017
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, 2016
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)
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)

(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.
Kite Realty Group Trust Yes x No o Kite Realty Group, L.P. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.

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

Kite Realty Group Trust Yes x No o Kite Realty Group, L.P. 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).

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

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.

Kite Realty Group Trust:

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

Kite Realty Group, L.P.:

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act)
Kite Realty Group Trust Yes o No x Kite Realty Group, L.P. Yes o No x

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as the last business day of the Registrant's most recently completed second quarter was $2.3 billion based upon the closing price on the New York Stock Exchange on such date.

The number of Common Shares outstanding as of February 23, 2017 was 83,545,021 ($.01 par value).

Documents Incorporated by Reference

Portions of the definitive Proxy Statement relating to the Registrant's Annual Meeting of Shareholders, scheduled to be held on May 10, 2017, 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.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2016 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, 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 December 31, 2016 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”) are owned by the limited partners.

We believe combining the annual reports on Form 10-K 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 incurrence 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
Annual Report on Form 10-K
For the Fiscal Year Ended
December 31, 2016

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Forward-Looking Statements

This Annual Report on Form 10-K, together with other statements and information publicly disseminated by us, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements, financial or otherwise, expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include but are not limited to:

- national and local economic, business, real estate and other market conditions, particularly in light of low growth in the U.S. economy as well as economic uncertainty caused by fluctuations in the prices of oil and other energy sources;
- financing risks, including the availability of, and costs associated with, sources of liquidity;
- our ability to refinance, or extend the maturity dates of, our indebtedness;
- the level and volatility of interest rates;
- the financial stability of tenants, including their ability to pay rent and the risk of tenant bankruptcies;
- the competitive environment in which we operate;
- acquisition, disposition, development and joint venture risks;
- property ownership and management risks;
- our ability to maintain our status as a real estate investment trust for federal income tax purposes;
- potential environmental and other liabilities;
- impairment in the value of real estate property we own;
- the impact of online retail and the perception that such retail has on the value of shopping center assets;
- risks related to the geographical concentration of our properties in Florida, Indiana and Texas;
- insurance costs and coverage;
- risks associated with cybersecurity attacks and the loss of confidential information and other business disruptions;
- other factors affecting the real estate industry generally; and
- other risks identified in this Annual Report on Form 10-K and, from time to time, in other reports we file with the Securities and Exchange Commission (the “SEC”) or in other documents that we publicly disseminate.

We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

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").

Overview

Kite Realty Group Trust is a publicly-held real estate investment trust which, through its majority-owned subsidiary, Kite Realty Group, L.P., owns interests in various operating subsidiaries and joint ventures engaged in the ownership, operation, acquisition, development, and redevelopment of high-quality neighborhood and community shopping centers in selected markets in the United States. We derive revenues primarily from activities associated with the collection of contractual rents and reimbursement payments from tenants at our properties. Our operating results therefore depend materially on, among other things, the ability of our tenants to make required lease payments, the health and resilience of the United States retail sector, interest rate volatility, job growth and overall economic and real estate market conditions.

As of December 31, 2016, we owned interests in 108 operating retail properties totaling approximately 21.4 million square feet of gross leasable area (including approximately 6.3 million square feet of non-owned anchor space) located in 20 states. Our retail operating portfolio was 95.4% leased to a diversified retail tenant base, with no single retail tenant accounting for more than 2.8% of our total annualized base rent. In the aggregate, our largest 25 tenants accounted for 35.2% of our annualized base rent. See Item 2, "Properties" for a list of our top 25 tenants by annualized base rent.

As of December 31, 2016, we had an interest in two development projects under construction. Upon completion, these projects are anticipated to have approximately 0.4 million square feet of gross leasable area. In addition to our development projects, as of December 31, 2016, we had nine redevelopment projects, which are expected to contain 1.6 million square feet of gross leasable area upon completion.

Significant 2016 Activities

Operating Activities

We continued to drive strong operating results from our portfolio as follows:

- Net income attributable to common shareholders was $1.2 million for the year ended December 31, 2016;
- Same Property Net Operating Income ("Same Property NOI") increased 2.9% in 2016 compared to 2015 primarily due to increases in rental rates and improved expense control and operating expense recovery;

- We executed leases on 179 new and 209 renewal spaces for approximately 2.0 million square feet of retail space in 2016, achieving a blended rent spread of 9.8% for comparable signed leases;
- Excluding the nine properties under redevelopment, our operating portfolio annual base rent per square foot as of December 31, 2016 was $15.53, a 2.0% increase from the end of the prior year; and
- We maintained efficiency metrics, which we define as a combination of operating margin and general and administrative expenses to revenue, in the top third of our peer group.

Development and Redevelopment Activities

We believe evaluating our operating properties for development and redevelopment opportunities enhances shareholder value as it will make them more attractive for leasing to new tenants and it improves long-term values and economic returns. We initiated, advanced, and completed a number of development and redevelopment activities in 2016, including the following:

- Parkside Town Commons – Phase II near Raleigh, North Carolina – We delivered a 32,000 square foot space to Stein Mart, which is expected to open in the first half of 2017. In addition, we are negotiating a lease to replace the remaining vacant anchor space, which would increase the committed level to 91.5%.
- Holly Springs Towne Center – Phase II near Raleigh, North Carolina – We substantially completed construction on this development and transitioned this project to the operating portfolio in the second quarter of 2016. Phase II of the development is anchored by Bed Bath & Beyond, DSW, and Carmike Theatres. We have executed a lease for 23,000 square feet with O2 Fitness for the expansion phase of this development.
- Tamiami Crossing in Naples, Florida – We substantially completed construction on this development and transitioned this 100% occupied project to the operating portfolio in the second quarter of 2016. This center is anchored by Ross Dress for Less, Ulta, Michaels, Petsmart, Stein Mart and Marshalls.
- Under Construction Redevelopment, Reposition, and Repurpose (“3-R”) Projects. Our 3-R initiative, which includes a total of 20 projects under construction or active evaluation, continued to progress in 2016. There are a total of 10 projects currently under construction, which have an estimated combined annualized return of approximately 9% to 10%, with aggregate costs for these projects expected to range between $58.0 million to $66.5 million. We completed construction on the following four 3-R projects during the fourth quarter of 2016:
Hitchcock Plaza in Augusta-Aiken, Georgia – We completed a conversion of vacant space into multiple junior anchor boxes and incremental shop space and executed a new lease with Petco, which opened in October 2016.
Shops at Moore in Oklahoma City, Oklahoma – We completed the recapture and expansion of existing vacant space and executed a lease with Five Below, which opened in September 2016.
Tarpon Bay Plaza in Naples, Florida – We completed the recapture of a vacant junior anchor space and executed a new lease with PetSmart, which opened in December 2016.
Traders Point in Indianapolis, Indiana – We completed the renovation of the existing AMC theater to upgrade the space into a premier entertainment center.

Financing and Capital Raising Activities.

In 2016, we were able to further strengthen our balance sheet and improve our financial flexibility and liquidity to fund future growth. We ended the year with approximately $430 million of combined cash and borrowing capacity on our unsecured revolving credit facility. In addition, we have approximately $90 million of debt maturities through December 31, 2020. Significant financing and capital raising activities in 2016 included:

- In June 2016, we drew the remaining $100 million on our $200 million seven-year unsecured term loan ("7-Year Term Loan");
- In July 2016, we amended and restated our credit agreement and extended the maturity date of our $500 million unsecured revolving credit facility to July 28, 2020 (with two six-month extension options), and separated our existing $400 unsecured term loan into a $200 million unsecured term loan maturing July 1, 2019 ("Term Loan A") and a $200 million unsecured term loan maturing July 28, 2021 ("Term Loan B").
- In September 2016, we completed a $300 million public offering of 4.00% Senior Notes due October 1, 2026 ("the Notes"). The net proceeds from the issuance of the Notes were utilized to retire the $200 million Term

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Loan A, to retire the $75.9 million construction loan secured by our Parkside Town Commons operating property and fund a portion of the retirement of $35 million in secured loans.

- We issued 137,229 of our common shares at an average price per share of $29.52 pursuant to our at-the-market equity program, generating gross proceeds of approximately $4.1 million and, after deducting commissions and other costs, net proceeds of approximately $3.8 million.
- We retired $240.2 million of property level secured debt. As a result, the ratio of secured debt to undepreciated assets declined from 23.0% to 16.9% as of December 31, 2015 and 2016, respectively.
- We ended 2016 with a debt service coverage ratio of 3.5x.