



REITs

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COMPANY UPDATE / ESTIMATE CHANGES / PRICE TARGET CHANGE

Key Metrics

KRG - NYSE (as of 2/1/2018)	\$16.47
Price Target	\$22.00
52-Week Range	\$16.41 - \$24.38
Shares & Units Outstanding (mm)	86
Market Cap. (\$mm)	\$1,416
3-Mo. Average Daily Volume (000)	673
Institutional Ownership	97%
Debt/Total Market Capital (12/17)	50.1%
Est 3- Year Dividend Growth Rate	5%
Dividend	\$1.27
Dividend Yield	7.7%

FFO Per Common Share & Unit

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$0.51	\$0.51	\$0.52	\$0.50
2Q	\$0.48	\$0.54	\$0.52	\$0.50
3Q	\$0.51	\$0.49	\$0.53	\$0.49
4Q	\$0.49	\$0.50	\$0.54	\$0.51
Year	\$2.00	\$2.04	\$2.11	\$2.00
P/FFO	8.2x	8.1x		8.2x

*Quarterly FFO may not add up to full year FFO due to the impact of common stock offerings and rounding.

Revenue (\$mm)

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$88.1	\$89.7	\$91.4	\$88.7
2Q	\$87.2	\$92.3	\$92.7	\$88.2
3Q	\$88.7	\$86.7	\$93.2	\$88.2
4Q	\$88.5	\$88.1	\$95.3	\$90.2
Year	\$352.6	\$356.9	\$372.4	\$355.3

*Revenue does not include construction and service fee revenue.

*Previous numbers have not been restated.

Company Description: Kite Realty Group, headquartered in Indianapolis, Indiana, is a self-administered real estate investment trust (REIT). The company develops, owns, operates, and manages high quality neighborhood and community shopping centers in select markets in the United States.

Kite Realty Group Trust

KRG - NYSE – Buy - 3

Fourth Quarter Results

- **Kite reported fourth quarter FFO per diluted share of \$0.50 versus \$0.49 in the year ago period.** This was equal to ours and the consensus estimate.
- **The same store operating portfolio was 94.6% leased versus 95.3% in 4Q16.** Same property NOI increased 1.5% year over year.
- **Kite executed 131 leases in the quarter with a comparable cash leasing spread of 7.2%.**
- **The dividend was increased in 4Q17.** In November 2017, Kite announced a 5.0% quarterly dividend increase to a rate of \$0.3175 per common share.
- **We are lowering our 2018 FFO per diluted share estimate by eleven cents to \$2.00.** Management initiated 2018 FFO per share guidance of \$1.98 - \$2.04.
- **We rate KRG Buy with a \$22.00 target price.** This is a \$3.00 decline from our previous price target. More details can be found on page 5 of this report.

**Note Important Disclosures on Pages 6 - 7.
Note Analyst Certification on Page 6.**

Fourth Quarter Results

Total revenues declined 0.4% to \$88.1 million. Minimum rents were down 0.2% to \$68.5 million from \$68.6 million last year. Kite's same store portfolio was 94.6% leased at the end of the quarter. Same property NOI increased 1.5% in the fourth quarter. Kite executed 131 leases in the quarter. One hundred and two of those leases were comparable, with a cash leasing spread of 7.2%. New leases were signed at a 20.0% positive cash rent spread. Renewal leases were signed at a 5.3% increase in cash rent spread.

Net income attributable to Kite Realty Group Trust was \$2.3 million compared to \$3.4 million in the year ago period. Earnings per share were \$0.03 in 4Q17 versus \$0.04 in 4Q16. Funds from operations attributable to common shareholders were \$41.8 million versus \$40.9 million last year. FFO per share was \$0.50, a penny above the year ago period.

Retail Environment - Kite plans to focus on releasing box spaces this year. The company currently has about 50% of its vacant boxes under lease negotiations or with active letters of intent being negotiated. The small shop lease rate at the end of the quarter was 90.5%, up 160 basis points year over year. This was a company high for small shop occupancy.

Acquisitions & Dispositions - No acquisitions or dispositions were completed in the quarter.

Development Pipeline - As of December 31, 2017, the company had two in-process development projects which are expected to stabilize in 2018 and 2020, respectively. In the press release, management provided a detailed description of in-process and future reposition, repurpose and redevelopment ("3-R") opportunities. Kite completed two "3-R" projects in 4Q. Seven additional projects are under construction and four additional projects have been identified. Total spend for the eleven projects still to be completed is expected to be \$111.0 million to \$133.0 million with targeted incremental returns of 8% to 11%.

Financials - As of December 31, 2017, the company had \$43.2 million of maturities in 2018 and \$6.0 million in 2019. We believe these maturities are manageable.

Guidance & Estimate - Kite initiated 2018 FFO per share guidance of \$1.98 to \$2.04. Assumptions made in guidance include: retail portfolio lease percentage ranging from 94.5% to 95.5% at December 31, 2018, an increase of 1.0% to 1.5% of same property NOI, general and administrative expense of \$21.5 million to \$22.5 million, GAAP interest expense of \$66 million to \$67 million, non-cash below market lease amortization and straight line rent of \$9.0 million to \$9.5 million, gain on sale of non-depreciable assets of \$2.0 million to \$3.0 million, fee revenue of \$2.0 million to \$2.5 million and dispositions of +/- \$60 million in 1Q and no acquisition or capital market activity. Our 2018 FFO per diluted share estimate is lowered by eleven cents to \$2.00.

Condensed Consolidated Statement of Operations

(in thousands, except per share data and share count)

	4Q17	4Q16	% Change
Revenue:			
Minimum rent	\$68,518	\$68,622	-0.2%
Tenant reimbursements	18,252	17,791	2.6%
Other property related revenue	358	1,016	-64.8%
Overage rent	780	904	-13.7%
Parking related revenue	218	188	16.0%
Total revenue	88,126	88,521	-0.4%
Expenses:			
Property operating - Recoverable	10,018	9,986	0.3%
Property operating - Non-Recoverable	2,417	2,172	11.3%
Real estate taxes	10,638	10,469	1.6%
Net Operating Income Properties	65,053	65,894	-1.3%
Other Income (Expense):			
General and administrative, and other	(5,360)	(5,375)	
Fee income	377		
Severance charge			
Non-cash gain from release of assumed earnout liability			
Impairment charge			
Transaction costs			
EBITDA	60,070	60,519	-0.7%
Litigation charge			
Depreciation and amortization	(40,758)	(42,939)	
Interest expense	(16,452)	(17,613)	
Income tax (expense) benefit of taxable REIT subsidiary	36	(51)	
(Loss) income from unconsolidated entities			
Gain on sale of unconsolidated property			
Non-cash gain from consolidation of subsidiary			
Non-cash gain on debt extinguishment			
Remeasurement loss on consolidation			
Gain on settlement			
Other income	(101)	(75)	
(Loss) income from continuing operations	2,795	(159)	
Discontinued operations:			
Operating income from discontinued operations			
Impairment charge			
Gain on debt extinguishment			
Non-cash loss on impairment of real estate asset			
Income on sale of operating property		4,059	
Income from discontinued operations	0	4,059	
Gain on sale of operating property			
Net (loss) income	2,795	3,900	-28.3%
Net loss (income) attributable to noncontrolling interest	(486)	(541)	
Non-cash adjustment for redemption of preferred shares			
Preferred dividend			
Net (loss) income attributable to Kite Realty Group Trust	\$2,309	\$3,359	-31.3%
Income per common share - diluted	\$0.03	\$0.04	-25.0%
Weighted average common shares outstanding - diluted	83,705,764	83,571,663	0.2%
Funds From Operations	4Q17	4Q16	% Change
Net income (loss)	\$2,795	\$3,900	-28.3%
Less dividends on preferred shares			
Less non-cash adjustment for redemption of preferred shares			
Deduct gain on sale of operating property		(4,059)	
Deduct gain on sale of unconsolidated property			
Deduct net income attributable to noncontrolling interests in properties	(428)	(461)	
Add remeasurement loss on consolidation of Parkside Town Commons, net			
Add impairment charge			
Add limited partners' interest in income			
Add depreciation and amortization, net of noncontrolling interests	40,425	42,670	-5.3%
Funds from operations of the Kite Portfolio	42,792	42,050	1.8%
Deduct limited partners' interest in funds from operations	(971)	(1,164)	
Deduct redeemable noncontrolling interests in funds from operations			
Funds from operations attributable to common shareholders	\$41,821	\$40,886	2.3%
Diluted FFO per share of the Kite Portfolio	\$0.50	\$0.49	2.0%
Diluted weighted average common shares and units outstanding	85,690,986	85,514,090	0.2%

Source: Company reports

Kite Realty Group Trust
Consolidated Balance Sheet
(in thousands, except per share data)

	12/31/2015	12/31/2016	12/31/2017
Assets:			
Investment properties, at cost	3,933,140	3,996,065	3,957,884
Less: accumulated depreciation	(432,295)	(560,683)	(664,614)
	3,500,845	3,435,382	3,293,270
Cash and cash equivalents	33,880	19,874	24,082
Tenant and other receivables	51,101	53,087	58,328
Investment in unconsolidated entities, at equity			
Restricted cash and escrow deposits	13,476	9,037	8,094
Deferred costs and intangibles, net	157,884	129,264	112,359
Prepaid and other assets	8,852	9,727	16,365
Assets held for sale			
Total assets	\$3,766,038	\$3,656,371	\$3,512,498
Liabilities and Shareholders' Equity:			
Mortgage and other indebtedness	1,734,059	1,731,074	1,699,239
Accounts payable and accrued expenses	81,356	80,664	78,482
Deferred revenue and other liabilities	131,559	112,202	96,564
Liabilities held for sale			
Total liabilities	\$1,946,974	\$1,923,940	\$1,874,285
Commitments and contingencies			
Limited partners' interest in o.p.	92,315	88,165	72,104
Shareholders' equity:			
Preferred shares			
Common shares	833	835	836
Additional paid in capital and other	2,050,545	2,062,360	2,071,418
Accumulated other comprehensive loss	(2,145)	(316)	2,990
Accumulated deficit	(323,257)	(419,305)	(509,833)
Total shareholders' equity	1,725,976	1,643,574	1,565,411
Noncontrolling interests	773	692	698
Total equity	\$1,726,749	\$1,644,266	\$1,566,109
Total liabilities and shareholders' equity	\$3,766,038	\$3,656,371	\$3,512,498

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	12/31/2017
Net R/E Investments / Total Debt	201.9%	198.5%	193.8%
Debt to Equity	100.4%	105.3%	108.5%
Variable Rate Debt as % of Total Debt	12.4%	6.9%	8.1%
Debt to Total Market Capitalization	44.0%	46.1%	50.1%
Debt as % of Total Assets	46.0%	47.3%	48.4%
Shareholders' Equity as % of Total Assets	45.9%	45.0%	44.6%

Previous numbers have not been restated.
Source: SNL Financial and company reports

Valuation

Based on valuation we rate Kite Buy. Kite's shares are currently trading at a discount to their peer group, the S&P 500, and their median 5 year historic forward price/FFO multiple. We believe Kite's shares should trade at a 10.8x multiple. This multiple is equal to the peer group but a discount to the S&P 500 and KRG's median 5 year historic forward price/FFO multiple. We derive our \$22.00 target price by applying a 10.8x multiple to our 2019 FFO per share estimate of \$2.05. We like the fundamentals of the company and believe management has done a good job improving the balance sheet.

Shopping Center REITs	Symbol	Closing Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year	18/17E	Price / FFO	
		2/1/2018	Dividend			2016	2017E	2018E	Avg. Growth	Growth	2017E	2018E
Kimco Realty Corporation	KIM	\$15.36	\$1.12	7.3%	72.3%	\$1.31	\$1.55	\$1.52	8.0%	-1.9%	9.9x	10.1x
DDR Corp.	DDR	\$7.86	\$0.76	9.7%	110.1%	\$1.27	\$0.69	\$0.97	-11.8%	40.6%	11.4x	8.1x
Weingarten Realty Investors	WRI	\$28.50	\$1.54	5.4%	64.4%	\$2.28	\$2.39	\$2.49	4.6%	4.2%	11.9x	11.4x
Cedar Realty Trust	CDR	\$5.03	\$0.20	4.0%	36.4%	\$0.41	\$0.55	\$0.56	18.3%	1.8%	9.1x	9.0x
Urstadt Biddle Properties	UBA	\$19.07	\$1.08	5.7%	93.9%	\$1.25	\$1.15	\$1.26	0.4%	9.6%	16.6x	15.1x
Peer Average		\$15.16	\$0.94	6.4%	75.4%	\$1.30	\$1.27	\$1.36	3.9%	10.8%	11.8x	10.8x
S&P 500	.SPX	2,821.98	\$50.14	1.8%	38.3%	\$117.75	\$131.00	\$145.29	11.7%	10.9%	21.5x	19.4x
Kite Realty Group Trust	KRG	\$16.47	\$1.27	7.7%	62.3%	\$2.00	\$2.04	\$2.00	0.0%	-2.0%	8.1x	8.2x

Note: Hilliard Lyons has DDR, WRI, and UBA rated Neutral, respectively. The rest are not rated.

SPX figures are EPS, not FFO per share.

UBA's fiscal year ends October 31.

Source: NAREIT, HL Estimates, and Thomson Eikon.

Suitability

We assign shares of Kite Realty Group Trust a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's lack of property type diversification offset by what we view as a strong balance sheet.

Risks and Considerations

Risk factors associated with Kite Realty Group Trust include, but are not limited to: interest rate risk, a decline in consumer spending, change in consumer spending patterns/trends, an inability to finance acquisitions or developments, development risk, higher construction or supply costs, bankruptcy of tenant(s), etc.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2017 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2017 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

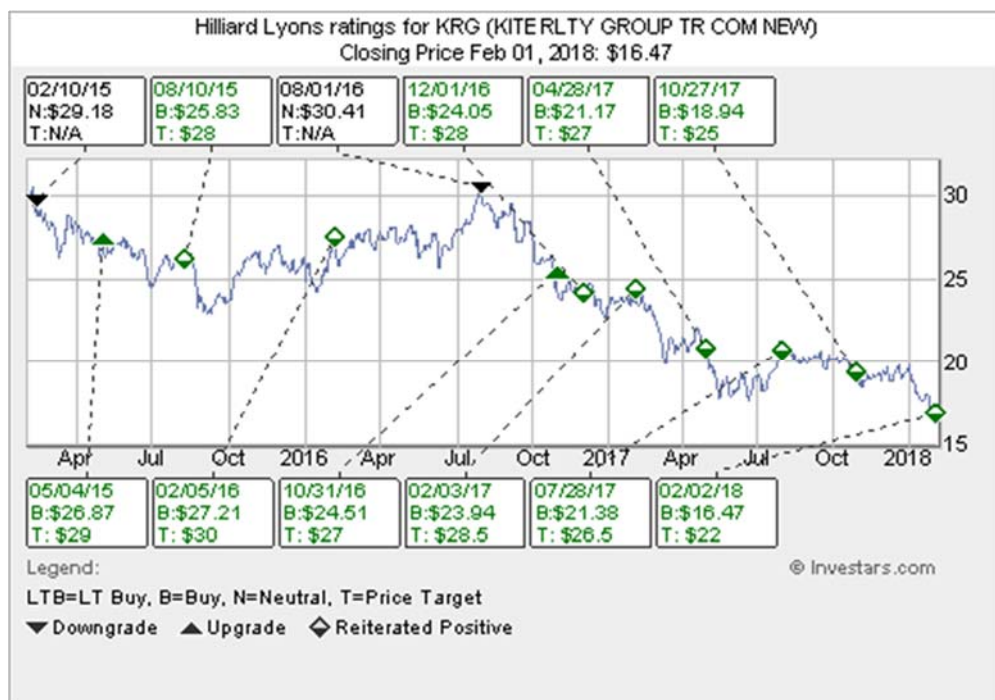
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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