



REITs

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COMPANY UPDATE / ESTIMATE CHANGES / PRICE TARGET CHANGE

Key Metrics

KRG - NYSE (as of 7/27/2017)	\$21.38
Price Target	\$26.50
52-Week Range	\$17.60 - \$30.45
Shares & Units Outstanding (mm)	86
Market Cap. (\$mm)	\$1,839
3-Mo. Average Daily Volume (000)	833
Institutional Ownership	98%
Debt/Total Market Capital (6/17)	50.8%
Est 3- Year Dividend Growth Rate	5%
Dividend	\$1.21
Dividend Yield	5.7%

FFO Per Common Share & Unit

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.51		\$0.51 A	\$0.52	\$0.52
2Q	\$0.48		\$0.54 A	\$0.52	\$0.52
3Q	\$0.51	\$0.51	\$0.50	\$0.53	\$0.53
4Q	\$0.49	\$0.52	\$0.50	\$0.54	\$0.54
Year	\$2.00	\$2.05	\$2.05	\$2.11	\$2.11
P/FFO	10.7x		10.4x		10.1x

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

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$88.1		\$89.7 A	\$91.9	\$91.4
2Q	\$87.2		\$92.3 A	\$92.7	\$92.7
3Q	\$88.7	\$90.3	\$88.6	\$93.7	\$93.4
4Q	\$88.5	\$92.6	\$90.5	\$95.6	\$95.3
Year	\$352.6	\$361.7	\$361.2	\$373.9	\$372.7

*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

Second Quarter Results

- Kite reported second quarter FFO per diluted share of **\$0.54 versus \$0.48 in the year ago period**. This was above our and the consensus estimate.
- The same store operating portfolio was **94.3% leased versus 95.1% in 2Q16**. Same property NOI increased 3.2% year over year.
- Kite executed **96 leases in the quarter with a comparable cash leasing spread of 9.8%**.
- We are maintaining our **2017 FFO per diluted share estimate of \$2.05**. Management narrowed 2017 FFO per share guidance by a penny on both ends to a range of \$2.01 - \$2.05.
- We rate **KRG Buy with a \$26.50 target price**. This is a \$0.50 decline from our previous price target based on a lower median 5 year historic forward price / FFO multiple for Kite than we used in our last report.

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

Second Quarter Results

Total revenues increased 5.9% to \$92.3 million. Minimum rents were down 0.1% to \$68.4 million from \$68.5 million last year. Kite's same store portfolio was 94.3% leased at the end of the quarter. Same property NOI increased 3.2% in the second quarter. Kite executed 96 leases in the quarter, of which 68 were comparable, with a comparable cash leasing spread of 9.8%. New leases were signed at a 17.4% positive cash rent spread. Renewal leases were signed at a 8.0% increase in cash rent spread.

Net income attributable to Kite Realty Group Trust was \$10.2 million compared to a loss of \$1.9 million in the year ago period. Earnings per share were \$0.12 in 2Q17 versus a loss of \$0.02 in 2Q16. Funds from operations of the operating portfolio were \$45.1 million versus \$40.6 million last year. FFO per share was \$0.54, six cents above the year ago period.

Retail Environment - Kite has not been significantly impacted by retail closings so far this year. The company has recently signed leases with fitness tenants, entertainment tenants and restaurants. One of the most worrisome areas for retail landlords over the past few years has been the fallout of small shop tenants. The small shop lease rate at the end of the quarter was 89.2%, up 90 basis points year over year. This was a company high for small shop occupancy.

Acquisitions & Dispositions - No acquisitions were completed in the quarter. KRG sold three properties in 2Q17, resulting in gross proceeds of \$54.6 million.

Development Pipeline - As of June 30, 2017, the company had one in-process development project which is expected to stabilize in 2018. One project was transitioned from the development pipeline to the operating portfolio this quarter. The company completed three 3-R (reposition, repurpose and redevelopment) projects in 2Q. In the press release, management provided a detailed description of in-process and future reposition, repurpose and redevelopment opportunities. Seven of these projects are under construction and seven additional projects have been identified. Total spend for the fourteen projects is expected to be \$133.5 million to \$159.0 million with targeted incremental returns of 8% to 11%.

Financials - As of June 30, 2017, the company had \$2.6 million of debt maturities in 2017 and \$43.2 million in 2018. We believe these maturities are manageable.

Guidance & Estimate - Kite narrowed 2017 FFO per share guidance by a penny on both sides to a range of \$2.01 to \$2.05. Assumptions made in guidance include: retail portfolio lease percentage ranging from 95.0% to 95.5% at December 31, 2017, an increase of 2.0% to 3.0% of same property NOI; general and administrative expense of \$21 million to \$22 million; GAAP interest expense of \$66 million to \$67 million; non-cash below market lease amortization of \$2.5 million to \$3.5 million; sale of non-depreciable assets of \$5.0 million to \$5.5 million; dispositions of \$78 million; and no acquisition activity. Our 2017 FFO per diluted share estimate remains \$2.05.

Kite Realty Group Trust
Condensed Consolidated Statement of Operations
(in thousands, except per share data and share count)

	2Q17	2Q16	% Change
Revenue:			
Minimum rent	\$68,395	\$68,455	-0.1%
Tenant reimbursements	18,521	17,006	8.9%
Other property related revenue	5,267	1,548	240.2%
Overage rent	16	162	-90.1%
Parking related revenue	137	50	174.0%
Total revenue	92,336	87,221	5.9%
Expenses:			
Property operating - Recoverable	9,386	9,058	3.6%
Property operating - Non-Recoverable	2,573	2,062	24.8%
Real estate taxes	11,095	10,375	6.9%
Net Operating Income Properties	69,282	65,726	5.4%
Other Income (Expense):			
General and administrative, and other	(5,488)	(4,856)	
Severance charge			
Non-cash gain from release of assumed earnout liability			
Impairment charge			
Transaction costs		(2,771)	
EBITDA	63,794	58,099	9.8%
Litigation charge			
Depreciation and amortization	(42,710)	(43,841)	
Interest expense	(16,433)	(15,500)	
Income tax (expense) benefit of taxable REIT subsidiary	(3)	(338)	
(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	(80)	(110)	
(Loss) income from continuing operations	4,568	(1,690)	
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	6,290	194	
Income from discontinued operations	6,290	194	
Gain on sale of operating property			
Net (loss) income	10,858	(1,496)	
Net loss (income) attributable to noncontrolling interest	(678)	(399)	
Non-cash adjustment for redemption of preferred shares			
Preferred dividend			
Net (loss) income attributable to Kite Realty Group Trust	\$10,180	(\$1,895)	
Income per common share - diluted	\$0.12	(\$0.02)	
Weighted average common shares outstanding - diluted	83,652,627	83,375,765	0.3%

	2Q17	2Q16	% Change
Funds From Operations			
Net income (loss)	\$10,858	(\$1,496)	
Less dividends on preferred shares			
Less non-cash adjustment for redemption of preferred shares			
Deduct gain on sale of operating property	(6,290)	(194)	
Deduct gain on sale of unconsolidated property			
Deduct net income attributable to noncontrolling interests in properties	(438)	(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	42,050	43,545	-3.4%
Funds from operations of the Kite Portfolio	46,180	41,394	11.6%
Deduct limited partners' interest in funds from operations	(1,056)	(809)	
Deduct redeemable noncontrolling interests in funds from operations			
Funds From Operations allocable to the company	\$45,124	\$40,585	11.2%
Diluted FFO per share of the Kite Portfolio	\$0.54	\$0.48	12.5%
Diluted weighted average common shares and units outstanding	85,639,457	85,420,633	0.3%

Source: Company reports

Kite Realty Group Trust
Consolidated Balance Sheet

(in thousands, except per share data)

	12/31/2015	12/31/2016	6/30/2017
Assets:			
Investment properties, at cost	3,933,140	3,996,065	3,939,999
Less: accumulated depreciation	(432,295)	(560,683)	(608,233)
	3,500,845	3,435,382	3,331,766
Cash and cash equivalents	33,880	19,874	27,635
Tenant and other receivables	51,101	53,087	52,270
Investment in unconsolidated entities, at equity			
Restricted cash and escrow deposits	13,476	9,037	8,717
Deferred costs and intangibles, net	157,884	129,264	119,699
Prepaid and other assets	8,852	9,727	10,188
Assets held for sale			
Total assets	\$3,766,038	\$3,656,371	\$3,550,275
Liabilities and Shareholders' Equity:			
Mortgage and other indebtedness	1,734,059	1,731,074	1,675,064
Accounts payable and accrued expenses	81,356	80,664	88,482
Deferred revenue and other liabilities	131,559	112,202	103,302
Liabilities held for sale			
Total liabilities	\$1,946,974	\$1,923,940	\$1,866,848
Commitments and contingencies			
Limited partners' interest in o.p.	92,315	88,165	73,051
Shareholders' equity:			
Preferred shares			
Common shares	833	835	836
Additional paid in capital and other	2,050,545	2,062,360	2,067,795
Accumulated other comprehensive loss	(2,145)	(316)	736
Accumulated deficit	(323,257)	(419,305)	(459,689)
Total shareholders' equity	1,725,976	1,643,574	1,609,678
Noncontrolling interests	773	692	698
Total equity	\$1,726,749	\$1,644,266	\$1,610,376
Total liabilities and shareholders' equity	\$3,766,038	\$3,656,371	\$3,550,275

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	6/30/2017
Net R/E Investments / Total Debt	201.9%	198.5%	198.9%
Debt to Equity	100.4%	105.3%	104.0%
Variable Rate Debt as % of Total Debt	12.4%	6.9%	5.2%
Debt to Total Market Capitalization	44.0%	46.1%	50.8%
Debt as % of Total Assets	46.0%	47.3%	47.2%
Shareholders' Equity as % of Total Assets	45.9%	45.0%	45.4%

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 12.54x multiple, which is equal to the company's median 5 year historic forward price/FFO multiple. This multiple is near the peer group and a discount to the S&P 500. We derive our \$26.50 target price by applying a 12.54x multiple to our 2018 FFO per share estimate of \$2.11. 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	
		7/27/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth	2017E	2018E
Kimco Realty Corporation	KIM	\$21.02	\$1.08	5.1%	70.6%	\$1.31	\$1.53	\$1.62	11.8%	5.9%	13.7x	13.0x
DDR Corp.	DDR	\$10.79	\$0.76	7.0%	96.2%	\$1.27	\$0.79	\$0.92	-13.8%	16.5%	13.7x	11.7x
Weingarten Realty Investors	WRI	\$32.58	\$1.54	4.7%	65.3%	\$2.28	\$2.36	\$2.50	4.8%	5.9%	13.8x	13.0x
Cedar Realty Trust	CDR	\$5.34	\$0.20	3.7%	37.0%	\$0.41	\$0.54	\$0.56	18.3%	3.7%	9.9x	9.5x
Urstadt Biddle Properties	UBA	\$21.12	\$1.06	5.0%	89.1%	\$1.25	\$1.19	\$1.23	-0.8%	3.4%	17.7x	17.2x
Peer Average		\$18.17	\$0.93	5.1%	71.6%	\$1.30	\$1.28	\$1.37	4.1%	7.1%	13.8x	12.9x
S&P 500	.SPX	2,475.42	\$48.95	2.0%	37.4%	\$117.75	\$130.74	\$139.52	9.2%	6.7%	18.9x	17.7x
Kite Realty Group Trust	KRG	\$21.38	\$1.21	5.7%	59.0%	\$2.00	\$2.05	\$2.11	2.8%	2.9%	10.4x	10.1x

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 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 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.

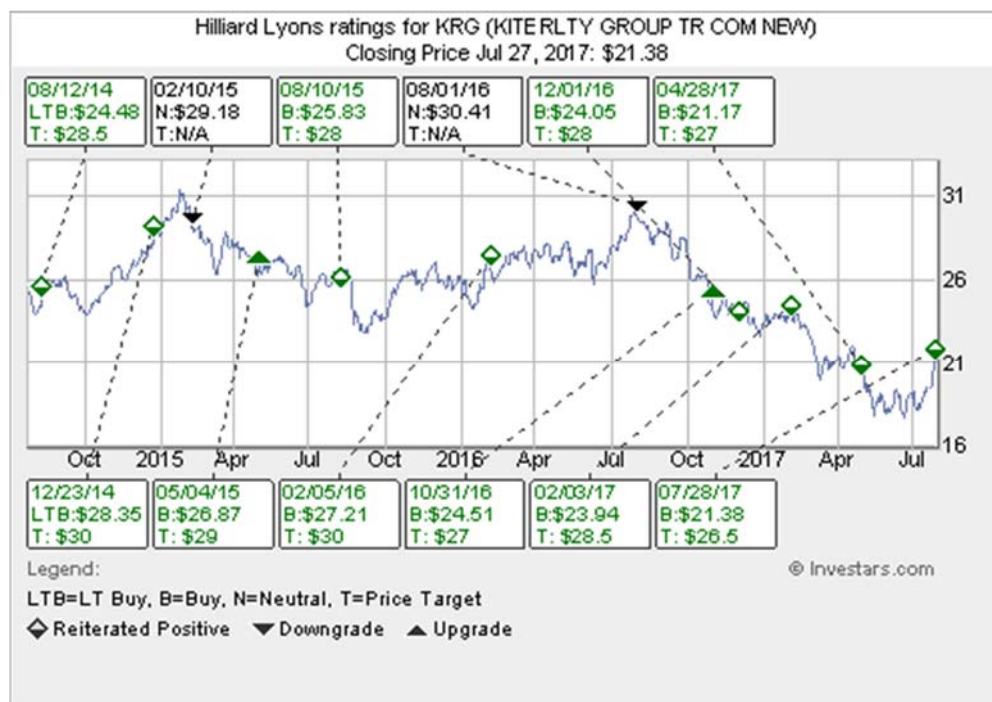
Suitability Ratings

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	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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