



REITs

Analyst: Carol L. Kemple
 502.588.1839 / CKemple@hilliard.com
 Institutional Sales Desk: George Moorin
 502.588.9141 / GMoorin@hilliard.com
 J.J.B. Hilliard, W.L. Lyons, LLC
 October 27, 2017

COMPANY UPDATE / ESTIMATE CHANGES / PRICE TARGET CHANGE

Key Metrics

KRG - NYSE (as of 10/26/2017)	\$18.94
Price Target	\$25.00
52-Week Range	\$17.60 - \$25.53
Shares & Units Outstanding (mm)	86
Market Cap. (\$mm)	\$1,629
3-Mo. Average Daily Volume (000)	621
Institutional Ownership	100%
Debt/Total Market Capital (9/17)	49.1%
Est 3- Year Dividend Growth Rate	5%
Dividend	\$1.21
Dividend Yield	6.4%

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		\$0.49 A	\$0.53	\$0.53
4Q	\$0.49	\$0.50	\$0.50	\$0.54	\$0.54
Year	\$2.00	\$2.05	\$2.04	\$2.11	\$2.11
P/FFO	9.5x		9.3x		9.0x

*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	\$91.4	\$91.4
2Q	\$87.2		\$92.3 A	\$92.7	\$92.7
3Q	\$88.7		\$86.7 A	\$93.4	\$93.2
4Q	\$88.5	\$90.5	\$90.6	\$95.3	\$95.3
Year	\$352.6	\$361.2	\$359.4	\$372.7	\$372.4

*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

Third Quarter Results

- Kite reported third quarter FFO per diluted share of \$0.49 versus \$0.51 in the year ago period. This was a penny below our estimate but equal to the consensus estimate.
- The same store operating portfolio was 94.4% leased versus 95.1% in 3Q16. Same property NOI increased 3.6% year over year.
- Kite executed 86 leases in the quarter with a comparable cash leasing spread of 11.1%.
- We are lowering our 2017 FFO per diluted share estimate by a penny to \$2.04. Management raised the lower end 2017 FFO per share guidance by two cents to a range of \$2.03 - \$2.05.
- We rate KRG Buy with a \$25.00 target price. This is a \$1.50 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.**

Third Quarter Results

Total revenues declined 2.3% to \$86.7 million. Minimum rents were down 2.8% to \$67.6 million from \$69.5 million last year. Kite's same store portfolio was 94.4% leased at the end of the quarter. Same property NOI increased 3.6% in the third quarter. Kite executed 86 leases in the quarter. Sixty five of those leases were comparable, with a cash leasing spread of 11.1%. New leases were signed at an 18.9% positive cash rent spread. Renewal leases were signed at a 9.7% increase in cash rent spread.

Net income attributable to Kite Realty Group Trust was a loss of \$0.6 million compared to a loss of \$1.7 million in the year ago period. Earnings per share were a loss of \$0.01 in 3Q17 versus a loss of \$0.02 in 3Q16. Funds from operations of the operating portfolio were \$40.9 million versus \$42.7 million last year. FFO per share was \$0.49, two cents below 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 89.7%, up 100 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 September 30, 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 opportunities. Eight of these projects are under construction and five additional projects have been identified. Total spend for the thirteen projects is expected to be \$117.5 million to \$140.0 million with targeted incremental returns of 8% to 11%.

Financials - As of September 30, 2017, the company had \$1.2 million of maturities in 2017 and \$43.2 million in 2018. We believe these maturities are manageable.

Guidance & Estimate - Kite raised the bottom end of 2017 FFO per share guidance by two cents to a range of \$2.03 to \$2.05. Assumptions made in guidance include: retail portfolio lease percentage ranging from 94.5% to 95.0% at December 31, 2017, an increase of 2.8% 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 is lowered by a penny to \$2.04.

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

	3Q17	3Q16	% Change
Revenue:			
Minimum rent	\$67,585	\$69,518	-2.8%
Tenant reimbursements	17,657	17,531	0.7%
Other property related revenue	1,252	1,198	4.5%
Overage rent	82	315	-74.0%
Parking related revenue	138	159	-13.2%
Total revenue	86,714	88,721	-2.3%
Expenses:			
Property operating - Recoverable	9,533	9,599	-0.7%
Property operating - Non-Recoverable	2,053	2,091	-1.8%
Real estate taxes	10,675	10,515	1.5%
Net Operating Income Properties	64,453	66,516	-3.1%
Other Income (Expense):			
General and administrative, and other	(5,431)	(5,081)	
Severance charge			
Non-cash gain from release of assumed earnout liability			
Impairment charge			
Transaction costs			
EBITDA	59,022	61,435	-3.9%
Litigation charge			
Depreciation and amortization	(42,793)	(45,543)	
Interest expense	(16,372)	(17,139)	
Income tax (expense) benefit of taxable REIT subsidiary	33	(15)	
(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	(94)		
(Loss) income from continuing operations	(204)	(1,262)	
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			
Income from discontinued operations	0	0	
Gain on sale of operating property			
Net (loss) income	(204)	(1,262)	
Net loss (income) attributable to noncontrolling interest	(418)	(420)	
Non-cash adjustment for redemption of preferred shares			
Preferred dividend			
Net (loss) income attributable to Kite Realty Group Trust	(\$622)	(\$1,682)	
Income per common share - diluted	(\$0.01)	(\$0.02)	
Weighted average common shares outstanding - diluted	83,594,163	83,474,348	0.1%

	3Q17	3Q16	% Change
Funds From Operations			
Net income (loss)	(\$204)	(\$1,262)	
Less dividends on preferred shares			
Less non-cash adjustment for redemption of preferred shares			
Deduct gain on sale of operating property			
Deduct gain on sale of unconsolidated property			
Deduct net income attributable to noncontrolling interests in properties	(432)	(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	42,474	45,310	-6.3%
Funds from operations of the Kite Portfolio	41,838	43,587	-4.0%
Deduct limited partners' interest in funds from operations	(949)	(918)	
Deduct redeemable noncontrolling interests in funds from operations			
Funds From Operations allocable to the company	\$40,889	\$42,669	-4.2%
Diluted FFO per share of the Kite Portfolio	\$0.49	\$0.51	-3.9%
Diluted weighted average common shares and units outstanding	85,695,549	85,580,632	0.1%

Source: Company reports

Kite Realty Group Trust
Consolidated Balance Sheet

(in thousands, except per share data)

	12/31/2015	12/31/2016	9/30/2017
Assets:			
Investment properties, at cost	3,933,140	3,996,065	3,955,928
Less: accumulated depreciation	(432,295)	(560,683)	(635,583)
	3,500,845	3,435,382	3,320,345
Cash and cash equivalents	33,880	19,874	32,465
Tenant and other receivables	51,101	53,087	53,271
Investment in unconsolidated entities, at equity			
Restricted cash and escrow deposits	13,476	9,037	8,878
Deferred costs and intangibles, net	157,884	129,264	115,623
Prepaid and other assets	8,852	9,727	12,810
Assets held for sale			
Total assets	\$3,766,038	\$3,656,371	\$3,543,392
Liabilities and Shareholders' Equity:			
Mortgage and other indebtedness	1,734,059	1,731,074	1,681,676
Accounts payable and accrued expenses	81,356	80,664	101,574
Deferred revenue and other liabilities	131,559	112,202	101,066
Liabilities held for sale			
Total liabilities	\$1,946,974	\$1,923,940	\$1,884,316
Commitments and contingencies			
Limited partners' interest in o.p.	92,315	88,165	73,454
Shareholders' equity:			
Preferred shares			
Common shares	833	835	836
Additional paid in capital and other	2,050,545	2,062,360	2,068,636
Accumulated other comprehensive loss	(2,145)	(316)	1,050
Accumulated deficit	(323,257)	(419,305)	(485,598)
Total shareholders' equity	1,725,976	1,643,574	1,584,924
Noncontrolling interests	773	692	698
Total equity	\$1,726,749	\$1,644,266	\$1,585,622
Total liabilities and shareholders' equity	\$3,766,038	\$3,656,371	\$3,543,392

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	9/30/2017
Net R/E Investments / Total Debt	201.9%	198.5%	197.4%
Debt to Equity	100.4%	105.3%	106.1%
Variable Rate Debt as % of Total Debt	12.4%	6.9%	5.6%
Debt to Total Market Capitalization	44.0%	46.1%	49.1%
Debt as % of Total Assets	46.0%	47.3%	47.5%
Shareholders' Equity as % of Total Assets	45.9%	45.0%	44.7%

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 12.0x multiple, which is slightly below the company's median 5 year historic forward price/FFO multiple. This multiple is equal to the peer group and a discount to the S&P 500. We derive our \$25.00 target price by applying a 12.0x multiple to our 2018 FFO per share estimate of \$2.11. We note that the multiple we use is down from our previous multiple of 12.54x due to our view that the negative retail narrative may continue to put pressure on valuations in the near term. 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 10/26/2017	Current Dividend	Yield	Payout Ratio	FFO Per Share			2-Year Avg. Growth	18/17E Growth	Price / FFO	
						2016	2017E	2018E			2017E	2018E
Kimco Realty Corporation	KIM	\$18.33	\$1.12	6.1%	72.7%	\$1.31	\$1.54	\$1.60	11.1%	3.9%	11.9x	11.5x
DDR Corp.	DDR	\$7.88	\$0.76	9.6%	96.2%	\$1.27	\$0.79	\$0.92	-13.8%	16.5%	10.0x	8.6x
Weingarten Realty Investors	WRI	\$31.08	\$1.54	5.0%	64.4%	\$2.28	\$2.39	\$2.49	4.6%	4.2%	13.0x	12.5x
Cedar Realty Trust	CDR	\$5.58	\$0.20	3.6%	37.0%	\$0.41	\$0.54	\$0.55	17.1%	1.9%	10.3x	10.1x
Urstadt Biddle Properties	UBA	\$21.76	\$1.06	4.9%	93.0%	\$1.25	\$1.14	\$1.27	0.8%	11.4%	19.1x	17.1x
Peer Average		\$16.93	\$0.94	5.8%	72.7%	\$1.30	\$1.28	\$1.37	4.0%	7.6%	12.9x	12.0x
S&P 500	.SPX	2,560.40	\$49.45	1.9%	37.7%	\$117.75	\$131.03	\$141.07	9.9%	7.7%	19.5x	18.1x
Kite Realty Group Trust	KRG	\$18.94	\$1.21	6.4%	59.3%	\$2.00	\$2.04	\$2.11	2.8%	3.4%	9.3x	9.0x

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.

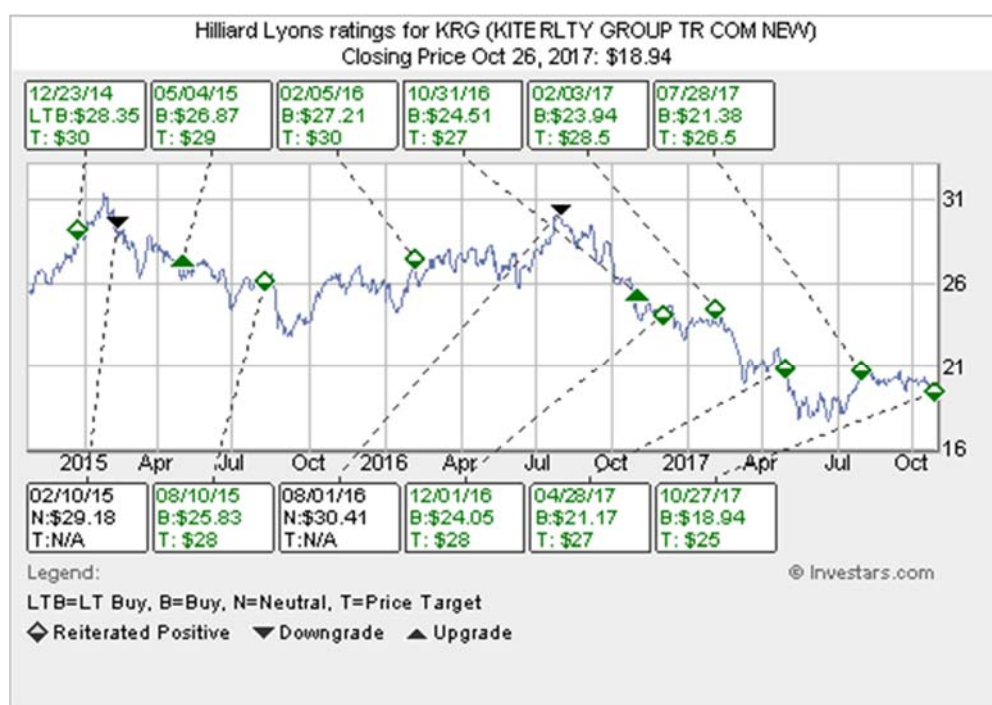
Suitability Ratings

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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.