



## Fitch Affirms Kimco Realty Corp. at 'BBB+'; Outlook Stable

Fitch Ratings - New York - 03 March 2020:

Fitch Ratings has affirmed Kimco Realty Corp.'s (KIM) Issuer Default Rating (IDR) at 'BBB+'. Fitch has also affirmed KIM's senior unsecured and preferred notes at 'BBB+' and 'BBB-', respectively.

The Rating Outlook is Stable.

KIM's rating is supported by its large, geographically diversified portfolio and strong capital access. KIM's leverage ratio is currently exceeding Fitch's 6.0x upper sensitivity, due in part to the redemption of preferred equity through unsecured bond capital. KIM's rating and Stable Outlook reflect an anticipation of leverage returning to the high-5x range within 12-24 months through additional EBITDA generated through (re)development activity and low-single-digit internal growth. KIM's potential monetization of its Albertson's investment, which Fitch has not included in its base case, would further improve liquidity and likely accelerate de-leveraging back within our upper bound leverage sensitivity.

The company's contingent liquidity, as measured by unencumbered asset value to net unsecured debt (UA/UD), is weak relative to peers in the high-1x range and the company's adjusted funds from operations (AFFO) payout ratio has exceeded 100% in four of the last six quarters. Contingent liquidity should improve as unencumbered redevelopment projects come online.

### Key Rating Drivers

**Elevated Leverage to Moderate:** KIM has disposed of \$1.4 billion of assets with weaker growth prospects since 2018 and used the proceeds largely for (re)development. The immediate dilution from the sale of operating assets and funding of (re)development activity has resulted in a lag effect on EBITDA that Fitch expects will be remedied over the next several quarters as (re)developed boxes become active.

Fitch expects KIM's leverage to return to the high-5x range through the additional EBITDA generated by the (re)development pipeline. KIM's leverage ratio is currently exceeding Fitch's 6.0x upper sensitivity, due in part to the redemption of preferred equity with unsecured bond capital. Fitch's base case does not assume monetization of KIM's investment in grocer Albertsons Companies LLC, but the event could potentially generate \$400 million or more in additional liquidity through the forecast period.

KIM's fixed-charge coverage (FCC) was 3.0x for the year-ended Dec. 31, 2019. Fitch expects the company's FCC will improve to the mid 3x range due in part to the redemption of higher cost preferred equity with a 30-year 3.7% unsecured bond.

**Stable, Diversified Portfolio:** Fitch assumes SSNOI, excluding redevelopment, will grow 1.5%-2.5% annually through the forecast period with limited occupancy volatility. Same-store net operating income (SSNOI) growth grew 3.0% in both 2018 and 2019 versus 1.7% in 2017, reflecting stronger performance of the core portfolio. The scale, diversification and laddered leasing within KIM's portfolio provide for generally durable cash flow from operations. Leasing spreads increased at a blended 8% in 2019, similar to 2018 spreads and down from a low-double-digit spread in 2015-2017.

KIM's portfolio is well diversified, with some concentration in the Northeast U.S. The company's top seven markets represent approximately 48% of ABR; the New York metro area is the company's largest market, representing 13.2% of ABR, and approximately 31% of ABR is from the New York-Washington, D.C., corridor, which includes Philadelphia and Baltimore.

Kimco has a well-diversified tenant roster consisting of a mix of national, regional and local retailers that are generally more necessity-based (i.e. grocers) and more insulated from the intrusion of e-commerce. The company's 10 largest tenants represented 20.2% of total annual base rent as of YE 2019, which is consistent with shopping center REIT peers. The company's top tenants include TJX Companies (3.9% of ABR), The Home Depot, Inc. (2.5%) and Ahold Delhaize (2.1%), which have exhibited strong performance. Notable credit concerns in the company's tenant roster include Petsmart (1.8% of ABR), Bed Bath & Beyond (1.5% of ABR), Petco (1.1%) and The Gap (0.9%). The company's exposure to bankrupt retailer Pier 1 is 0.5% of ABR.

**Strong Capital Access:** KIM's capital access is a key factor supporting the rating. The company's absolute size and the size of its issuances provide a liquid trading market for its bonds. Recently, KIM's bonds have priced in line with the 'BBB+' rating category. The company is also one of the select REIT issuers that have been consistently capable of issuing 30-year paper, most recently in August 2019 at a 3.7% coupon. Kimco has a weighted average debt tenor of 10.6 years with manageable near-term maturities.

As of early February 2020, the company's shares traded an estimated 9% below consensus NAV, as retail real estate operators have suffered declining share values due to broader brick-and-mortar retail industry concerns. Fitch's base case analysis assumes the company does not issue equity, instead opting for asset sales to fund capex investments.

KIM's AFFO payout ratio has increased steadily since 2012, as dividend increases have outpaced AFFO growth, limiting the capital retention. Fitch estimated the company's 2019 AFFO payout ratio at 98%, significantly higher than the 75%-80% REIT average in Fitch's rated universe.

**Weak Contingent Liquidity:** Fitch calculates KIM's contingent liquidity, as measured by UA/UD, was 1.7x when stressing unencumbered NOI at an 8% capitalization rate. Fitch generally considers UA/UD of 2.0x appropriate for investment-grade REITs. Fitch views the company's portfolio as readily financeable in the mortgage market and positively views its unencumbering strategy, even as refinancing maturing mortgages with unsecured debt dollar-for-dollar can negatively impact the UA/UD ratio due to relative LTVs of 60%-70% for secured debt versus corporate leverage of approximately 40%. The stabilization of unencumbered (re)development projects should improve the UA/UD ratio through the forecast period.

**Development Exposure:** KIM has a total of approximately \$580 million in active development and redevelopment projects in the pipeline, which are expected to be completed and stabilized through 2021. Kimco expects to invest \$200 - \$300 million in development/redevelopment projects during 2020.

The active projects include one ground-up development projects totaling approximately \$256 million in estimated costs and redevelopment projects representing approximately \$323 million in estimated costs with a Fitch-estimated blended 7% cash yield. The ground-up development project was 70% pre-leased as of Dec. 31, 2019, limiting risk exposure.

## **Derivation Summary**

KIM's portfolio, credit metrics and internal growth are commensurate with its shopping center peers in the 'BBB' rating category. The company's capital access is a key factor supporting the 'BBB+' IDR.

Fitch is expecting leverage to decline to the high-5x range by FY21, lower than peer Brixmor Property Group, Inc. (BBB-/Positive) and similar to SITE Centers Corp. (BBB/Stable). KIM's UA/UD ratio at 1.7x is below the level Fitch views as appropriate for investment-grade REIT issuers, but should improve as (re)developments are stabilized through the forecast period. Federal Realty Investment Trust's (A-/Stable) lower leverage, stronger portfolio demographics and metrics and capital access justify its higher rating.

### **Key Assumptions**

- SSNOI growth of approximately 1.5%-2.5% through the forecast period;
- Net dispositions of approximately \$150 million per annum through the forecast period;
- Development/redevelopment spend of \$200 per year from 2020 through 2022;
- Development/redevelopment deliveries of \$200 million in 2020 at a 7.5% yield and approximately \$125 million of deliveries at a 6.5% yield per annum through the remainder of the forecast period;
- Bond issuance totaling \$1.2 billion combined FY20-FY22;
- No equity issuance during the forecast period.

### **RATING SENSITIVITIES**

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Fitch's expectation of REIT Leverage (net debt to recurring operating EBITDA) sustaining below 5.0x;
- Fitch's expectation of REIT fixed-charge coverage (recurring operating EBITDA adjusted for straight line rents and maintenance capex relative to interest and preferred dividends) sustaining above 3.5x;
- UA/UD, based on a stressed 8% cap rate, sustaining above 2.5x.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Fitch's expectation of REIT Leverage sustaining above 6.0x;
- Fitch's expectation of REIT fixed-charge coverage sustaining below 2.0x;
- Failure to maintain UA/UD, based on a stressed 8% cap rate, above 2.0x.

### **Liquidity and Debt Structure**

Adequate Liquidity: Fitch estimates KIM's liquidity coverage at 1.6x through the end of 2021, which is adequate for the rating. KIM has limited maturities during the horizon with a \$500 million bond issuance coming due in 2021 along with \$98.9 million and \$145.1 million of mortgage debt maturing in 2020 and 2021, respectively. Assuming the company refinances 80% of secured maturities, liquidity coverage improves to 1.8x.

Should KIM be able to monetize its investment in Albertson's following an IPO, Fitch estimates this could generate an additional cash inflow of \$400 million or more, which would further bolster liquidity.

Fitch defines liquidity coverage as sources of liquidity divided by uses of liquidity. Sources include unrestricted cash, availability under unsecured revolving credit facilities and retained cash flow from operating activities after dividends. Uses include pro rata debt maturities, expected recurring capex and forecast (re)development costs.

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### RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Kimco Realty Corporation	LT IDR BBB+ ● Affirmed	BBB+ ●
senior unsecured	LT BBB+ Affirmed	BBB+
preferred	LT BBB- Affirmed	BBB-

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## **Applicable Criteria**

Corporate Rating Criteria (pub. 19 Feb 2019)  
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019)  
Corporate Hybrids Treatment and Notching Criteria (pub. 11 Nov 2019)

## **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form  
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Kimco Realty Corporation	-	Long Term Issuer Default Rating	Unsolicited
Kimco Realty Corporation USD 230 mln 5.25% preferred stock/security	-	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 225 mln 5.125% preferred stock ser L	US49446R7373	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAL33	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAN98	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAK59	Long Term Rating	Unsolicited
Kimco Realty Corporation notes	US49446RAR03	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 500 mln 3.3% bond/note 01- feb-2025	US49446RAU32	Long Term Rating	Unsolicited
Kimco Realty Corporation notes	US49446RAP47	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 400 mln 3.8% bond/note 01- apr-2027	US49446RAS85	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAM16	Long Term Rating	Unsolicited
Kimco Realty Corporation notes	US49446RAQ20	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 350 mln 4.45% bond/note 01- sep-2047	US49446RAT68	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 350 mln 3.7% bond/note 01- Oct-2049	US49446RAV15	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 2.25 bln Floating LIBOR 1.55% revolving credit facility 17-Mar-2021	-	Long Term Rating	Unsolicited
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