KITE REALTY GROUP TRUST
Form 10-Q
November 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

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)

Telephone: (317) 577-5600
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "smaller

reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Kite Realty Group Trust:

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o
						Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Kite Realty Group, L.P.:

Large accelerated filer	o	Accelerated filer	o	Non-accelerated filer	x	Smaller reporting company	o
						Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The number of Common Shares of Kite Realty Group Trust outstanding as of October 31, 2018 was 83,714,713 ($.01 par value).

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2018 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 and 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 September 30, 2018 owned approximately 97.6% of the common partnership interests in the Operating Partnership (“General Partner Units”). The remaining 2.4% of the common partnership interests (“Limited Partner Units” and, together with the General Partner Units, the “Common Units”) were owned by the limited partners.

We believe combining the quarterly reports on Form 10-Q 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 placement 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

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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Part I. FINANCIAL INFORMATION

Item 1.

Kite Realty Group Trust
Consolidated Balance Sheets
(Unaudited)
(in thousands, except share and per share data)

	September 30, 2018	December 31, 2017
Assets:		
Investment properties, at cost	$ 3,752,472	$ 3,957,884
Less: accumulated depreciation	(700,728)	(664,614)
	3,051,744	3,293,270
Cash and cash equivalents	30,709	24,082
Tenant and other receivables, including accrued straight-line rent of $31,730 and $31,747 respectively, net of allowance for uncollectible accounts	57,133	58,328
Restricted cash and escrow deposits	10,307	8,094
Deferred costs and intangibles, net	99,253	112,359
Prepaid and other assets	17,371	12,465
Investments in unconsolidated subsidiaries	13,836	3,900
Asset held for sale	5,531	—
Total Assets	$ 3,285,884	$ 3,512,498
Liabilities and Equity:		
Mortgage and other indebtedness, net	$ 1,578,328	$ 1,699,239
Accounts payable and accrued expenses	98,537	78,482
Deferred revenue and intangibles, net and other liabilities	82,723	96,564
Total Liabilities	1,759,588	1,874,285
Commitments and contingencies	—	—
Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests	47,426	72,104
Equity:		
Kite Realty Group Trust Shareholders' Equity:		
Common Shares, $.01 par value, 225,000,000 shares authorized, 83,720,286 and 83,606,068 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	837	836
Additional paid in capital	2,076,552	2,071,418
Accumulated other comprehensive income	5,700	2,990
Accumulated deficit	(604,917)	(509,833)
Total Kite Realty Group Trust Shareholders' Equity	1,478,172	1,565,411
Noncontrolling Interest	698	698
Total Equity	1,478,870	1,566,109
Total Liabilities and Shareholders' Equity	$ 3,285,884	$ 3,512,498

The accompanying notes are an integral part of these consolidated financial statements.

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Kite Realty Group Trust
Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Minimum rent	$65,328	$ 67,585	$202,475	$204,926
Tenant reimbursements	18,185	17,657	54,221	54,748
Other property related revenue	2,129	1,896	8,119	10,226
Fee income	105	—	2,430	—
Total revenue	85,747	87,138	267,245	269,900
Expenses:				
Property operating	12,092	11,859	37,184	36,950
Real estate taxes	11,205	10,826	32,351	32,384
General, administrative, and other	4,865	5,431	16,364	16,389
Depreciation and amortization	36,858	42,793	115,864	131,333
Impairment charges	—	—	38,847	7,411
Total expenses	65,020	70,909	240,610	224,467
Operating income	20,727	16,229	26,635	45,433
Interest expense	(16,058)	(16,372)	(49,141)	(49,250)
Income tax benefit of taxable REIT subsidiary	27	33	78	64
Other expense, net	(379)	(94)	(643)	(314)
Income (loss) from continuing operations	4,317	(204)	(23,071)	(4,067)
Gains on sales of operating properties	—	—	8,329	15,160
Net income (loss)	4,317	(204)	(14,742)	11,093
Net income attributable to noncontrolling interests	(379)	(418)	(604)	(1,528)
Net income (loss) attributable to Kite Realty Group Trust common shareholders	$3,938	$ (622)	$(15,346)	$9,565
Income (loss) per common share - basic and diluted	$0.05	$ (0.01)	$(0.18)	$0.11
Weighted average common shares outstanding - basic	83,706,704	83,594,163	83,670,038	83,581,847
Weighted average common shares outstanding - diluted	83,767,655	83,594,163	83,670,038	83,689,590
Cash dividends declared per common share	$0.3175	$ 0.3025	$0.9525	$0.9075
Net income (loss)	$4,317	$ (204)	$(14,742)	$11,093
Change in fair value of derivatives	53	322	2,780	1,398
Total comprehensive income (loss)	4,370	118	(11,962)	12,491
Comprehensive income attributable to noncontrolling interests	(381)	(426)	(674)	(1,560)
Comprehensive income (loss) attributable to Kite Realty Group Trust	$3,989	$ (308)	$(12,636)	$10,931

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group Trust
Consolidated Statement of Shareholders’ Equity
(Unaudited)
(in thousands, except share data)

	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balances, December 31, 2017	83,606,068	$ 836	$2,071,418	$ 2,990	$ (509,833)	$1,565,411
Stock compensation activity	96,218	1	4,430	—	—	4,431
Other comprehensive income attributable to Kite Realty Group Trust	—	—	—	2,710	—	2,710
Distributions declared to common shareholders	—	—	—	—	(79,738)	(79,738)
Net loss attributable to Kite Realty Group Trust	—	—	—	—	(15,346)	(15,346)
Adjustment to redeemable noncontrolling interests	18,000	—	704	—	—	704
Balances, September 30, 2018	83,720,286	$ 837	$2,076,552	$ 5,700	$ (604,917)	$1,478,172

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group Trust
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Consolidated net (loss) income	$(14,742)	$11,093
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:		
Straight-line rent	(2,322)	(3,593)
Depreciation and amortization	118,085	133,206
Gains on sales of operating properties	(8,329)	(15,160)
Impairment charge	38,847	7,411
Provision for credit losses	1,714	2,409
Compensation expense for equity awards	4,015	4,869
Amortization of debt fair value adjustment	(2,083)	(2,200)
Amortization of in-place lease liabilities, net	(5,488)	(2,515)
Changes in assets and liabilities:		
Tenant receivables and other	(744)	(2,031)
Deferred costs and other assets	(12,814)	(11,035)
Accounts payable, accrued expenses, deferred revenue and other liabilities	2,894	1,391
Net cash provided by operating activities	119,033	123,845
Cash flows from investing activities:		
Capital expenditures, net	(47,287)	(61,611)
Net proceeds from sales of operating properties	161,499	76,076
Investment in unconsolidated subsidiaries	(9,973)	—
Change in construction payables	(644)	6,677
Net cash provided by investing activities	103,595	21,142
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	59	—
Repurchases of common shares upon the vesting of restricted shares	(350)	(808)
Acquisition of partner's interest in Fishers Station operating property	—	(3,750)
Partial acquisition of partner's interest in Territory joint venture	(10,000)	—
Loan proceeds	127,000	69,700
Loan transaction costs	(2,865)	—
Loan payments and related financing escrows	(244,991)	(118,771)
Distributions paid – common shareholders	(79,722)	(75,841)
Distributions paid – redeemable noncontrolling interests	(2,919)	(3,086)
Net cash used in financing activities	(213,788)	(132,556)
Net change in cash, cash equivalents, and restricted cash	8,840	12,431
Cash, cash equivalents, and restricted cash beginning of period	32,176	28,912
Cash, cash equivalents, and restricted cash end of period	$41,016	$41,343

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group, L.P. and subsidiaries
Consolidated Balance Sheets
(unaudited)
(in thousands, except unit data)

	September 30, 2018	December 31, 2017
Assets:		
Investment properties, at cost	$ 3,752,472	$ 3,957,884
Less: accumulated depreciation	(700,728)	(664,614)
	3,051,744	3,293,270
Cash and cash equivalents	30,709	24,082
Tenant and other receivables, including accrued straight-line rent of $31,730 and $31,747 respectively, net of allowance for uncollectible accounts	57,133	58,328
Restricted cash and escrow deposits	10,307	8,094
Deferred costs and intangibles, net	99,253	112,359
Prepaid and other assets	17,371	12,465
Investments in unconsolidated subsidiaries	13,836	3,900
Assets held for sale	5,531	—
Total Assets	$ 3,285,884	$ 3,512,498
Liabilities and Equity:		
Mortgage and other indebtedness, net	$ 1,578,328	$ 1,699,239
Accounts payable and accrued expenses	98,537	78,482
Deferred revenue and intangibles, net and other liabilities	82,723	96,564
Total Liabilities	1,759,588	1,874,285
Commitments and contingencies	—	—
Redeemable Limited Partners' and other redeemable noncontrolling interests	47,426	72,104
Partners Equity:		
Parent Company:		
Common equity, 83,720,286 and 83,606,068 units issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,472,472	1,562,421
Accumulated other comprehensive income	5,700	2,990
Total Partners Equity	1,478,172	1,565,411
Noncontrolling Interests	698	698
Total Equity	1,478,870	1,566,109
Total Liabilities and Equity	$ 3,285,884	$ 3,512,498

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group, L.P. and subsidiaries
Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(in thousands, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Minimum rent	$65,328	$ 67,585	$202,475	$204,926
Tenant reimbursements	18,185	17,657	54,221	54,748
Other property related revenue	2,129	1,896	8,119	10,226
Fee income	105	—	2,430	—
Total revenue	85,747	87,138	267,245	269,900
Expenses:				
Property operating	12,092	11,859	37,184	36,950
Real estate taxes	11,205	10,826	32,351	32,384
General, administrative, and other	4,865	5,431	16,364	16,389
Depreciation and amortization	36,858	42,793	115,864	131,333
Impairment charges	—	—	38,847	7,411
Total expenses	65,020	70,909	240,610	224,467
Operating income	20,727	16,229	26,635	45,433
Interest expense	(16,058)	(16,372)	(49,141)	(49,250)
Income tax benefit of taxable REIT subsidiary	27	33	78	64
Other expense, net	(379)	(94)	(643)	(314)
Income (loss) from continuing operations	4,317	(204)	(23,071)	(4,067)
Gains on sales of operating properties	—	—	8,329	15,160
Consolidated net income (loss)	4,317	(204)	(14,742)	11,093
Net income attributable to noncontrolling interests	(285)	(432)	(979)	(1,302)
Net income (loss) attributable to common unitholders	$4,032	$ (636)	$(15,721)	$9,791
Allocation of net income (loss):				
Limited Partners	$94	$ (14)	$(375)	$226
Parent Company	3,938	(622)	(15,346)	9,565
	$4,032	$ (636)	$(15,721)	$9,791
Net income (loss) per unit - basic & diluted	$0.05	$ (0.01)	$(0.18)	$0.11
Weighted average common units outstanding - basic	85,768,857	85,580,993	85,717,440	85,561,343
Weighted average common units outstanding - diluted	85,829,808	85,580,993	85,717,440	85,669,087
Distributions declared per common unit	$0.3175	$ 0.3025	$0.9525	$0.9075
Consolidated net (loss) income	$4,317	$ (204)	$(14,742)	$11,093
Change in fair value of derivatives	53	322	2,780	1,398
Total comprehensive income (loss)	4,370	118	(11,962)	12,491
Comprehensive income attributable to noncontrolling interests	(285)	(432)	(979)	(1,302)
Comprehensive income (loss) attributable to common unitholders	$4,085	$ (314)	$(12,941)	$11,189

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group, L.P. and subsidiaries
Consolidated Statements of Partners' Equity
(Unaudited)
(in thousands)

	General Partner		
	Common Equity	Accumulated Other Comprehensive Income	Total
Balances, December 31, 2017	$1,562,421	$ 2,990	$1,565,411
Stock compensation activity	4,431	—	4,431
Other comprehensive income attributable to Parent Company	—	2,710	2,710
Distributions declared to Parent Company	(79,738)	—	(79,738)
Net loss	(15,346)	—	(15,346)
Adjustment to redeemable noncontrolling interests	704	—	704
Balances, September 30, 2018	$1,472,472	$ 5,700	$1,478,172

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group, L.P. and subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Consolidated net (loss) income	$(14,742)	$11,093
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:		
Straight-line rent	(2,322)	(3,593)
Depreciation and amortization	118,085	133,206
Gains on sales of operating properties	(8,329)	(15,160)
Impairment charge	38,847	7,411
Provision for credit losses	1,714	2,409
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Deferred costs and other assets	(12,814)	(11,035)
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Cash flows from financing activities:		
Contributions from the General Partner	59	—
Repurchases of common shares upon the vesting of restricted shares	(350)	(808)
Acquisition of partner's interest in Fishers Station operating property	—	(3,750)
Partial acquisition of partner's interest in Territory joint venture	(10,000)	—
Loan proceeds	127,000	69,700
Loan transaction costs	(2,865)	—
Loan payments and related financing escrows	(244,991)	(118,771)
Distributions paid – common unitholders	(79,722)	(75,841)
Distributions paid – redeemable noncontrolling interests	(2,919)	(3,086)
Net cash used in financing activities	(213,788)	(132,556)
Net change in cash, cash equivalents, and restricted cash	8,840	12,431
Cash, cash equivalents, and restricted cash beginning of period	32,176	28,912
Cash, cash equivalents, and restricted cash end of period	$41,016	$41,343

The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group Trust and Kite Realty Group, L.P. and subsidiaries
Notes to Consolidated Financial Statements
September 30, 2018
(Unaudited)
(in thousands, except share and per share data)

Note 1. Organization

Kite Realty Group Trust (the "Parent Company"), through its majority-owned subsidiary, Kite Realty Group, L.P. (the “Operating Partnership”), owns interests in various operating subsidiaries and joint ventures engaged in the ownership and operation, acquisition, development and redevelopment of high-quality neighborhood and community shopping centers in select markets in the United States. 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 was formed on August 16, 2004, when the Parent Company contributed properties and the net proceeds from an initial public offering of shares of its common stock to the Operating Partnership. The Parent Company was organized in Maryland in 2004 to succeed in the development, acquisition, construction and real estate businesses of its predecessor. We believe the Company qualifies as a real estate investment trust (a “REIT”) under provisions of the Internal Revenue Code of 1986, as amended.

The Parent Company is the sole general partner of the Operating Partnership, and as of September 30, 2018 owned approximately 97.6% of the common partnership interests in the Operating Partnership (“General Partner Units”). The remaining 2.4% of the common partnership interests (“Limited Partner Units” and, together with the General Partner Units, the “Common Units”) were owned by the limited partners. As the sole general partner of the Operating Partnership, the Parent Company has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Operating Partnership. The Parent Company and the Operating Partnership are operated as one enterprise. The management of the Parent Company consists of the same members as the management of the Operating Partnership. As the sole general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have any significant assets other than its investment in the Operating Partnership.

At September 30, 2018, we owned interests in 115 operating and redevelopment properties totaling approximately 22.4 million square feet. We also owned one development project under construction as of this date. Of the 115 properties, 112 are consolidated in these financial statements and the remaining three are accounted for under the equity method.

Note 2. Basis of Presentation, Consolidation, Investments in Joint Ventures, and Noncontrolling Interests

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) may have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the presentation not misleading. The unaudited financial statements as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 include all adjustments, consisting of normal recurring adjustments, necessary in the opinion of management to present fairly the financial information set forth therein. The consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the combined Annual Report on Form 10-K of the Parent Company and the Operating Partnership for the year ended December 31, 2017.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reported period. Actual results could differ from these estimates. The results of operations for the interim periods are not necessarily indicative of the results that may be expected on an annual basis.

Components of Investment Properties

The composition of the Company's investment properties as of September 30, 2018 and December 31, 2017 was as follows:

	Balance at September 30, 2018	December 31, 2017
Investment properties, at cost:		
Land, buildings and improvements	$3,677,536	$ 3,873,149
Furniture, equipment and other	9,151	8,453
Land held for development	31,142	31,142
Construction in progress	34,643	45,140
	$3,752,472	$ 3,957,884

Consolidation and Investments in Joint Ventures

The accompanying financial statements are presented on a consolidated basis and include all accounts of the Parent Company, the Operating Partnership, the taxable REIT subsidiary of the Operating Partnership, subsidiaries of the Operating Partnership that are controlled and any variable interest entities ("VIEs") in which the Operating Partnership is the primary beneficiary. In general, a VIE is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) has equity investors that do not provide sufficient financial resources for the entity to support its activities, (b) does not have equity investors with voting rights or (c) has equity investors whose votes are disproportionate from their economics and substantially all of the activities are conducted on behalf of the investor with disproportionately fewer voting rights.

The Operating Partnership accounts for properties that are owned by joint ventures in accordance with the consolidation guidance. The Operating Partnership evaluates each joint venture and determines first whether to follow the VIE or the voting interest entity ("VOE") model. Once the appropriate consolidation model is identified, the Operating Partnership then evaluates whether it should consolidate the joint venture. Under the VIE model, the Operating Partnership consolidates an entity when it has (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the VOE model, the Operating Partnership consolidates an entity when (i) it controls the entity through ownership of a majority voting interest if the entity is not a limited partnership or (ii) it controls the entity through its ability to remove the other partners or owners in the entity, at its discretion, when the entity is a limited partnership.

In determining whether to consolidate a VIE with the Operating Partnership, we consider all relationships between the Operating Partnership and the applicable VIE, including development agreements, management agreements and other contractual arrangements, in determining whether we have the power to direct the activities of the VIE that most significantly affect the VIE's performance. As of September 30, 2018, we owned investments in three consolidated joint ventures that were VIEs in which the partners did not have substantive participating rights and we were the primary beneficiary. As of this date, these VIEs had total debt of $205.7 million, which were secured by assets of the VIEs totaling $444.2 million. The Operating Partnership guarantees the debts of these VIEs.

On June 29, 2018, the Company formed a joint venture involving TH Real Estate (the "TH Real Estate joint venture"). The Company sold three properties to the joint venture valued in the aggregate at $99.8 million and, after considering third party debt obtained by the venture upon formation, the Company contributed $10.0 million for a 20% noncontrolling ownership interest in the venture. The Company serves as the operating member responsible for day-to-day management of the properties and receives property management and leasing fees. Both members have substantive participating rights over major decisions that impact the economics and operations of the joint venture. The Company is accounting for the joint venture on the equity method as it has the ability to exercise influence, but not control over operating and financial policies.

The Operating Partnership is considered a VIE as the limited partners do not hold kick-out rights or substantive participating rights. The Parent Company consolidates the Operating Partnership as it is the primary beneficiary in accordance with the VIE model.

Income Taxes and REIT Compliance

Parent Company

The Parent Company, which is considered a corporation for federal income tax purposes, has been organized and intends to continue to operate in a manner that will enable it to maintain its qualification as a REIT for federal income tax purposes. As a result, it generally will not be subject to federal income tax on the earnings that it distributes to the extent it distributes its “REIT taxable income” (determined before the deduction for dividends paid and excluding net capital gains) to shareholders of the Parent Company and meets certain other requirements on a recurring basis. To the extent that it satisfies this distribution requirement, but distributes less than 100% of its taxable income, it will be subject to federal corporate income tax on its undistributed REIT taxable income. REITs are subject to a number of organizational and operational requirements. If the Parent Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates for a period of four years following the year in which qualification is lost. We may also be subject to certain federal, state and local taxes on our income and property and to federal income and excise taxes on our undistributed taxable income even if the Parent Company does qualify as a REIT. The Operating Partnership intends to continue to make distributions to the Parent Company in amounts sufficient to assist the Parent Company in adhering to REIT requirements and maintaining its REIT status.

We have elected to treat Kite Realty Holdings, LLC as a taxable REIT subsidiary of the Operating Partnership, and we may elect to treat other subsidiaries as taxable REIT subsidiaries in the future. This election enables us to receive income and provide services that would otherwise be impermissible for a REIT. Deferred tax assets and liabilities are established for temporary differences between the financial reporting bases and the tax bases of assets and liabilities at the tax rates expected to be in effect when the temporary differences reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Operating Partnership

The allocated share of income and loss, other than the operations of our taxable REIT subsidiary, is included in the income tax returns of the Operating Partnership's partners. Accordingly, the only federal income taxes included in the accompanying consolidated financial statements are in connection with the Operating Partnership's taxable REIT subsidiary.

Noncontrolling Interests

We report the non-redeemable noncontrolling interests in subsidiaries as equity, and the amount of consolidated net income attributable to these noncontrolling interests is set forth separately in the consolidated financial statements. The non-redeemable noncontrolling interests in consolidated properties for the nine months ended September 30, 2018 and 2017 were as follows:

	2018	2017
Noncontrolling interests balance January 1	$698	$692
Net income allocable to noncontrolling interests, excluding redeemable noncontrolling interests	—	6
Noncontrolling interests balance at September 30	$698	$698

Redeemable Noncontrolling Interests - Limited Partners

Limited Partner Units are redeemable noncontrolling interests in the Operating Partnership. We classify redeemable noncontrolling interests in the Operating Partnership in the accompanying consolidated balance sheets outside of permanent equity because we may be required to pay cash to holders of Limited Partner Units upon redemption of their interests in the Operating Partnership or deliver registered shares upon their conversion. The carrying amount of the redeemable noncontrolling interests in the Operating Partnership is reflected at the greater of historical book value or redemption value with a corresponding adjustment to additional paid-in capital. At September 30, 2018, the redemption value of the redeemable noncontrolling interests did not exceed the historical book value, and the balance was accordingly adjusted to historical book value. At December 31, 2017, the redemption value of the redeemable noncontrolling interests exceeded the historical book value, and the balance was accordingly adjusted to redemption value.

We allocate net operating results of the Operating Partnership after noncontrolling interests in the consolidated properties based on the partners' respective weighted average ownership interest. We adjust the redeemable noncontrolling interests in the Operating Partnership at the end of each reporting period to reflect their interests in the Operating Partnership or redemption value. This adjustment is reflected in our shareholders' and Parent Company's equity. For the three and nine months ended September 30, 2018 and 2017, the weighted average interests of the Parent Company and the limited partners in the Operating Partnership were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Parent Company’s weighted average basic interest in Operating Partnership	97.6%	97.7%	97.6%	97.7%
Limited partners' weighted average basic interests in Operating Partnership	2.4 %	2.3 %	2.4 %	2.3 %

At September 30, 2018, the Parent Company's interest and the limited partners' redeemable noncontrolling ownership interests in the Operating Partnership were 97.6% and 2.4%. At December 31, 2017, the Parent Company's interest and the limited partners' redeemable noncontrolling ownership interests in the Operating Partnership were 97.7% and 2.3%.

Concurrent with the Parent Company’s initial public offering and related formation transactions, certain individuals received Limited Partner Units of the Operating Partnership in exchange for their interests in certain properties. The limited partners have the right to redeem Limited Partner Units for cash or, at the Parent Company's election, common shares of the Parent Company in an amount equal to the market value of an equivalent number of common shares of the Parent Company at the time of redemption. Such common shares must be registered, which is not fully in the Parent Company’s control. Therefore, the limited partners’ interest is not reflected in permanent equity. The Parent Company also has the right to redeem the Limited Partner Units directly from the limited partner in exchange for either cash in the amount specified above or a number of its common shares equal to the number of Limited Partner Units being redeemed.

There were 2,048,849 and 1,974,830 Limited Partner Units outstanding as of September 30, 2018 and December 31, 2017, respectively. The increase in Limited Partner Units outstanding from December 31, 2017 is due to non-cash compensation awards made to our executive officers in the form of Limited Partner Units.

Redeemable Noncontrolling Interests - Subsidiaries

Prior to the merger with Inland Diversified Real Estate Trust, Inc. ("Inland Diversified") in 2014, Inland Diversified formed joint ventures with the previous owners of certain properties and issued Class B units in three joint ventures that indirectly own those properties. The Class B units related to two of these three joint ventures remain outstanding and are accounted for as noncontrolling interests in these properties. The Class B units related to the Territory Portfolio joint venture became redeemable at the respective partner’s election in March 2017 and are discussed further below. The remaining Class B units relate to our Crossing at Killingly Commons joint venture will become redeemable at the partner's election in October 2022 and the fulfillment of certain redemption criteria. Beginning in November 2022, the Class B units can be redeemed at the election of either of our partner or us for cash or Limited Partner Units in the Operating Partnership. None of the issued Class B units have a maturity date, and none are mandatorily redeemable unless either party has elected for the units to be redeemed. We consolidate these joint ventures because we control the decision making of each of the joint ventures and our joint venture partners have limited protective rights.

In February 2018, we received notice from our partners in the Territory Portfolio joint venture of their intent to exercise their right to redeem their remaining $22.0 million of Class B units for cash. The amount that will be redeemed was reclassified from Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests to accounts payable and accrued expenses in the consolidated balance sheets. The Company redeemed $10 million of the interest on August 7, 2018. The Company can determine the timing of the closing for the redemption for the remaining $12 million, but it must occur before November 8, 2018.

We classify the remainder of the redeemable noncontrolling interests in certain subsidiaries in the accompanying consolidated balance sheets outside of permanent equity because, under certain circumstances, we may be required to pay cash to Class B unitholders in specific subsidiaries upon redemption of their interests. The carrying amount of these redeemable noncontrolling interests is required to be reflected at the greater of initial book value or redemption value with a corresponding adjustment to additional paid-in capital. As of both September 30, 2018 and December 31, 2017, the redemption amounts of these interests did not exceed their fair value, nor did they exceed the initial book value.

The redeemable noncontrolling interests in the Operating Partnership and subsidiaries for the nine months ended September 30, 2018 and 2017 were as follows:

	2018	2017
Redeemable noncontrolling interests balance January 1	$72,104	$88,165
Net income allocable to redeemable noncontrolling interests	604	1,522
Distributions declared to redeemable noncontrolling interests	(2,943)	(3,099)
Liability reclassification due to exercise of redemption option by joint venture partner	(22,461)	(8,261)
Other, net, including adjustments to redemption value	122	(4,873)
Total limited partners' interests in Operating Partnership and other redeemable noncontrolling interests balance at September 30	$47,426	$73,454

Limited partners' interests in Operating Partnership	$37,356	$40,923
Other redeemable noncontrolling interests in certain subsidiaries	10,070	32,531
Total limited partners' interests in Operating Partnership and other redeemable noncontrolling interests balance at September 30	$47,426	$73,454

Fair Value Measurements

We follow the framework established under accounting standard FASB ASC 820 for measuring fair value of non-financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis but only in certain circumstances, such as a business combination or upon determination of an impairment.

Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

- Level 1 fair value inputs are quoted prices in active markets for identical instruments to which we have access.

- Level 2 fair value inputs are inputs other than quoted prices included in Level 1 that are observable for similar instruments, either directly or indirectly, and appropriately consider counterparty creditworthiness in the valuations.

- Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an instrument at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Recently Issued Accounting Pronouncements

Adoption of New Standards

On January 1, 2018, we adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”) using the modified retrospective approach. ASU 2014-09 revised GAAP by offering a single comprehensive revenue recognition standard that supersedes nearly all existing GAAP revenue recognition guidance. The impacted revenue streams primarily consist of fees earned from management, development services provided to third parties, and other ancillary income earned from our properties. No adjustments were required upon adoption of this standard. We evaluated our revenue streams and less than 1% of our annual revenue was impacted by this new standard upon its initial adoption.

Additionally, we adopted the clarified scope guidance of ASC 610-20, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets" in conjunction with ASU 2014-09, using the modified retrospective approach. ASC 610-20 applies to the sale, transfer and derecognition of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales, and eliminates the guidance specific to real estate in ASC 360-20. With respect to full disposals, the recognition will generally be consistent with our current measurement and pattern of recognition. With respect to partial sales of real estate to joint ventures, the new guidance requires us to recognize a full gain where an equity investment is retained. These transactions could result in a basis difference as we will be required to measure our retained equity interest at fair value, whereas the joint venture may continue to measure the assets received at carryover basis. No adjustments were required upon adoption of this standard.

During the nine months ended September 30, 2018, we sold our Trussville Promenade operating property in Birmingham, Alabama and our Memorial Commons operating property in Goldsboro, North Carolina in all cash transactions with no continuing future involvement. The gains recognized were less than 1% of our total revenue for the nine months ended September 30, 2018. As we do not have any continuing involvement in the operations of the operating properties, there was not a change in the accounting for the sales.

In addition, we sold a controlling interest in three operating properties to a newly formed joint venture involving TH Real Estate. The Company calculated the gain in accordance with ASC 606 and ASC 610-20 that requires full gain recognition upon deconsolidation of a nonfinancial asset. The properties were sold for an agreed upon value of $99.8 million. Net proceeds from the sale were $89.0 million and a net gain of $7.8 million was recorded as a result of the sale. The Company contributed $10.0 million for a 20% ownership interest in the joint venture.

On January 1, 2018 we adopted ASU 2016-15, Statement of Cash Flows (Topic 230), and ASU 2016-18, Restricted Cash, using a retrospective transition approach, which changed our statements of cash flows and related disclosures for all periods presented. ASU 2016-15 is intended to reduce diversity in practice with respect to how certain transactions are classified in the statement of cash flows and its adoption had no impact on our financial statements. ASU 2016-18 requires that a statement of cash flows explain the change during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The following is a summary of our cash, cash equivalents, and restricted cash total as presented in our statements of cash flows for the nine months ended September 30, 2018 and 2017:

	As of September 30,	
	2018	2017
Cash and cash equivalents	$30,709	$32,465
Restricted cash	10,307	8,878
Total cash, cash equivalents, and restricted cash	$41,016	41,343

For the nine months ended September 30, 2017, restricted cash related to cash flows provided by operating activities of $1.7 million and restricted cash related to cash flows provided by investing activities of $1.9 million were reclassified. Restricted cash primarily relates to cash held in escrows for payments of real estate taxes and property reserves for maintenance, insurance, or tenant improvements as required by our mortgage loans.

New Standards Issued but Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making certain changes to lessor accounting, including the accounting for sales-type and direct financing leases. ASU 2016-02 will be effective for annual and interim reporting periods beginning on or after December 15, 2018, with early adoption permitted. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. Because of the adoption of ASU 2016-02, we expect common area maintenance reimbursements that are of a fixed nature to be recognized on a straight-line basis over the term of the lease. We also expect to recognize right of use assets on our balance sheet related to certain ground leases where we are the lessee. Upon adoption of the standard, we anticipate recognizing a right of use asset currently estimated to be between $30 million and $34 million. In addition to evaluating the impact of adopting the new accounting standard on our consolidated financial statements, we are evaluating our existing lease contracts, our current and future information system capabilities, and other variables.

In July 2018, the FASB amended the new lease accounting standard to approve a new transition method and a lessor practical expedient for separating lease and non-lease components. This permits lessors to make an accounting policy election to not separate non-lease components, such as common area maintenance, of a contract from the leases to which they relate when specific criteria are met.

The new leasing standard also amends ASC 340-40, Other Assets and Deferred Costs - Contracts with Customers. Under ASC 340-40, incremental costs of obtaining a contract are recognized as an asset if the entity expects to recover them, which will reduce the leasing costs currently capitalized. Upon adoption of the new standard, we expect a reduction in certain capitalized costs and a corresponding increase in general, administrative, and other expense and a decrease in amortization expense on our consolidated statement of operations to be approximately $3- $5 million, although the amount of such impact is highly dependent upon the leasing compensation structures in place at the time of adoption, which may ultimately differ from those assumed by this projection.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. ASU 2017-02 better aligns a company’s financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 will be effective for annual and interim reporting periods beginning on or after December 15, 2018, with early adoption permitted using a modified retrospective transition method. This adoption method will require us to recognize the cumulative effect of initially applying the ASU as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the update. While we continue to assess all potential impacts of the standard, we do not expect the adoption of ASU 2017-12 to have a material impact on our consolidated financial statements.

Note 3. Earnings Per Share or Unit

Basic earnings per share or unit is calculated based on the weighted average number of common shares or units outstanding during the period. Diluted earnings per share or unit is determined based on the weighted average common number of shares or units outstanding during the period combined with the incremental average common shares or units that would have been outstanding assuming the conversion of all potentially dilutive common shares or units into common shares or units as of the earliest date possible.

Potentially dilutive securities include outstanding options to acquire common shares; Limited Partner Units, which may be exchanged for either cash or common shares, at the Parent Company’s option and under certain circumstances; units granted under our Outperformance Incentive Compensation Plan ("Outperformance Plan"); and deferred common share units, which may be credited to the personal accounts of non-employee trustees in lieu of the payment of cash compensation or the issuance of common shares to such trustees. Limited Partner Units have been omitted from the Parent Company’s denominator for computing diluted earnings per share since the effect of including these amounts in the denominator would have no dilutive impact. Approximately 2.0 million weighted average Limited Partner Units were outstanding for both the nine months ended September 30, 2018 and 2017.

Due to the net loss allocable to common shareholders and Common Unit holders for the nine months ended September 30, 2018 and the three months ended September 30, 2017, no securities had a dilutive impact for these periods.

Note 4. Mortgage and Other Indebtedness

Mortgage and other indebtedness consisted of the following as of September 30, 2018 and December 31, 2017:

	As of September 30, 2018			
	Principal	Unamortized Net Debt Premiums	Unamortized Debt Issuance Costs	Total
Senior unsecured notes - fixed rate	$550,000	$ —	$ (5,007)	$544,993
Unsecured revolving credit facility	23,100	—	(4,078)	19,022

Unsecured term loans	400,000	—	(1,380)	398,620
Mortgage notes payable - fixed rate	535,887	7,113	(632)	542,368
Mortgage notes payable - variable rate	73,671	—	(346)	73,325
Total mortgage and other indebtedness	$1,582,658	$ 7,113	$ (11,443)	$1,578,328

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	As of December 31, 2017			
	Principal	Unamortized Net Debt Premiums	Unamortized Debt Issuance Costs	Total
Senior unsecured notes - fixed rate	$550,000	$ —	$ (5,599)	$544,401
Unsecured revolving credit facility	60,100	—	(1,895)	58,205
Unsecured term loans	400,000	—	(1,759)	398,241
Mortgage notes payable - fixed rate	576,927	9,196	(755)	585,368
Mortgage notes payable - variable rate	113,623	—	(599)	113,024
Total mortgage and other indebtedness	$1,700,650	$ 9,196	$ (10,607)	$1,699,239

Consolidated indebtedness, including weighted average maturities and weighted average interest rates as of September 30, 2018, considering the impact of interest rate swaps, is summarized below:

	Outstanding Amount	Ratio	Weighted Average Interest Rate	Weighted Average Maturity (Years)
Fixed rate Debt [1]	$1,423,255	90 %	4.13 %	5.1
Variable Rate Debt	159,403	10 %	3.71 %	3.6
Net debt premiums and issuance costs, net	(4,330)	N/A	N/A	N/A
	$1,578,328	100 %	4.10 %	5.0

1 Fixed rate debt includes, and variable rate date excludes, the portion of such debt that has been hedged by interest rate derivatives. As of September 30, 2018, $337.4 million in variable rate debt is hedged for a weighted average 1.5 years.

Mortgage indebtedness is collateralized by certain real estate properties and leases, and is generally due in monthly installments of interest and principal and matures over various terms through 2030.

Variable interest rates on mortgage indebtedness are based on LIBOR plus spreads ranging from 150 to 160 basis points. At September 30, 2018, the one-month LIBOR interest rate was 2.26%. Fixed interest rates on mortgage indebtedness range from 3.78% to 6.78%.

Debt Issuance Costs

Debt issuance costs are amortized on a straight-line basis over the terms of the respective loan agreements.

The accompanying consolidated statements of operations include amortization of debt issuance costs as a component of interest expense as follows:

	Nine Months Ended September 30,	
	2018	2017
Amortization of debt issuance costs	$2,220	$2,014

Unsecured Revolving Credit Facility and Unsecured Term Loans

On April 24, 2018, the Company and Operating Partnership entered into the First Amendment (the “Amendment”) to the Fifth Amended and Restated Credit Agreement (the “Existing Credit Agreement,” and as amended by the Amendment, the “Amended Credit Agreement”), dated as of July 28, 2016, by and among the Operating Partnership, as borrower, the Company, as guarantor (pursuant to a springing guaranty, dated as of July 28, 2016), KeyBank National Association, as administrative agent, and the other lenders party thereto. The Amendment increases (i) the aggregate principal amount available under the unsecured revolving credit facility (the “Credit Facility”) from $500 million to $600 million, (ii) the amount of the letter of credit issuances the Operating Partnership may utilize under the Credit Facility from $50 million to $60 million, and (iii) swingline loan capacity from $50 million to $60 million in same day borrowings. Under the Amended Credit Agreement, the Operating Partnership has the option to increase the Credit Facility to $1.2 billion (increased from $1 billion under the Existing Credit Agreement) upon the Operating Partnership’s request, subject to certain conditions, including obtaining commitments from any one or more lenders, whether or not currently party to the Amended Credit Agreement, to provide such increased amounts.

The Amendment extends the scheduled maturity date of the Credit Facility from July 28, 2020 to April 22, 2022 (which maturity date may be extended for up to two additional periods of six months at the Operating Partnership’s option subject to certain conditions). Among other things, the Amendment also improves the Operating Partnership’s leverage ratio calculation by changing the definition of capitalization rate to six and one-half percent (6.5%) from six and three-fourths percent (6.75%), which increases the Operating Partnership’s total asset value as calculated under the Amended Credit Agreement.

As of September 30, 2018, $23.1 million was outstanding under the Credit Facility. Additionally, we had letters of credit outstanding which totaled $4.1 million, against which no amounts were advanced as of September 30, 2018.

The amount that we may borrow under our Credit Facility is limited by the value of the assets in our unencumbered asset pool. As of September 30, 2018, the value of the assets in our unencumbered asset pool, calculated pursuant to the Credit Facility agreement, was $1.4 billion. Considering outstanding borrowings on the line of credit, term loans, unsecured notes and letters of credit, we had $436.6 million available under our Credit Facility for future borrowings as of September 30, 2018.

Our ability to borrow under the Credit Facility is subject to our compliance with various restrictive and financial covenants, including with respect to liens, indebtedness, investments, dividends, mergers and asset sales. As of September 30, 2018, we were in compliance with all such covenants.

Senior Unsecured Notes

The Operating Partnership has $550 million of senior unsecured notes maturing at various dates through September 2027 (the "Notes"). The Notes contain a number of customary financial and restrictive covenants. As of September 30, 2018, we were in compliance with all such covenants.

Other Debt Activity

For the nine months ended September 30, 2018, we had total new borrowings of $127.0 million and total repayments of $245.0 million. In addition to the items mentioned above, the remaining components of this activity were as follows:

- We retired the $33.3 million loan secured by our Perimeter Woods operating property through a draw on our Credit Facility;
- We retired the $33.0 million loan secured by our Killingly Commons operating property through a draw on our Credit Facility;
- We retired the $4.3 million loan secured by our Whitehall Pike operating property and the $6.4 million loan secured by our Fishers Station redevelopment property utilizing cash flow from operations;
- We borrowed $43.1 million on the Credit Facility to fund development activities, redevelopment activities, tenant improvement costs, and other working capital needs;
- We used the $89.0 million of net proceeds from the formation of the TH Real Estate joint venture to pay down the Credit Facility;

- We used the $63.0 million of net proceeds from the sale of two operating properties to pay down the Credit Facility;
- We borrowed $10.0 million on the Credit Facility to partially redeem our partners' interest in the Territory joint venture; and
- We made scheduled principal payments on indebtedness totaling $4.0 million.

Fair Value of Fixed and Variable Rate Debt

As of September 30, 2018, the estimated fair value of our fixed rate debt was $1.0 billion compared to the book value of $1.1 billion. The fair value was estimated using Level 2 and 3 inputs with cash flows discounted at current borrowing rates for similar instruments, which ranged from 4.36% to 4.93%. As of September 30, 2018, the fair value of variable rate debt was $497.7 million compared to the book value of $496.8 million. The fair value was estimated using Level 2 and 3 inputs with cash flows discounted at current borrowing rates for similar instruments, which ranged from 2.88% to 4.49%.

Note 5. Derivative Instruments, Hedging Activities and Other Comprehensive Income

In order to manage potential future variable interest rate risk, we enter into interest rate derivative agreements from time to time. All such agreements are designated as cash flow hedges. We do not use interest rate derivative agreements for trading or speculative purposes. The agreements with each of our derivative counterparties provide that, in the event of default on any of our indebtedness, we could also be declared in default on our derivative obligations.

As of September 30, 2018, we were party to various cash flow derivative agreements with notional amounts totaling $337.4 million. These derivative agreements effectively fix the interest rate underlying certain variable rate debt instruments over expiration dates through 2021. Utilizing a weighted average interest rate spread over LIBOR on all variable rate debt resulted in fixing the weighted average interest rate at 3.72%.

These interest rate derivative agreements are the only assets or liabilities that we record at fair value on a recurring basis. The valuation of these assets and liabilities is determined using widely accepted techniques including discounted cash flow analysis. These techniques consider the contractual terms of the derivatives (including the period to maturity) and use observable market-based inputs such as interest rate curves and implied volatilities. We also incorporate credit valuation adjustments into the fair value measurements to reflect nonperformance risk on both our part and that of the respective counterparties.

We determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, although the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. As of September 30, 2018 and December 31, 2017, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined the credit valuation adjustments were not significant to the overall valuation of our derivatives. As a result, we determined our derivative valuations were classified within Level 2 of the fair value hierarchy.

As of September 30, 2018, the estimated fair value of our interest rate derivatives represented a net asset of $5.8 million. As of September 30, 2018, $5.9 million was reflected in prepaid and other assets and $0.1 million was reflected in accounts payable and accrued expenses on the accompanying consolidated balance sheets. At December 31, 2017, the estimated fair value of our interest rate hedges was a net asset of $2.4 million, including accrued interest of $0.1 million. As of December 31, 2017, $3.1 million was reflected in prepaid and other assets and $0.7 million was reflected in accounts payable and accrued expenses on the accompanying consolidated balance sheets.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to earnings over time as the hedged items are recognized in earnings. Approximately $0.4 million was reclassified as a reduction to earnings during the nine months ended September 30, 2018, and $2.1 million was reclassified as a reduction to earnings during the nine months ended September 30, 2017. As the interest payments on our hedges are made over the next 12 months, we estimate the decrease to interest expense to be $2.4 million, assuming the current LIBOR curve.

Unrealized gains and losses on our interest rate derivative agreements are the only components of the change in accumulated other comprehensive income.

Note 6. Shareholders’ Equity

Distribution Payments

Our Board of Trustees declared a cash distribution of $0.3175 per share for the third quarter of 2018 to common shareholders and Common Unit holders of record as of October 5, 2018. The distribution was paid on October 12, 2018.

Note 7. Deferred Costs and Intangibles, net

Deferred costs consist primarily of acquired lease intangible assets, broker fees and capitalized salaries and related benefits incurred in connection with lease originations. Deferred leasing costs, lease intangibles and similar costs are amortized on a straight-line basis over the terms of the related leases. At September 30, 2018 and December 31, 2017, deferred costs consisted of the following:

	September 30, 2018	December 31, 2017
Acquired lease intangible assets	$ 87,133	$ 107,668
Deferred leasing costs and other	70,701	68,335
	157,834	176,003
Less—accumulated amortization	(58,581)	(63,644)
Total	$ 99,253	$ 112,359

Amortization of deferred leasing costs, leasing intangibles and other is included in depreciation and amortization expense in the accompanying consolidated statements of operations. The amortization of above market lease intangibles is included as a reduction to revenue. The amounts of such amortization included in the accompanying consolidated statements of operations are as follows:

	Nine Months Ended September 30,	
	2018	2017
Amortization of deferred leasing costs, lease intangibles and other	$14,531	$17,785
Amortization of above market lease intangibles	2,026	3,139

Note 8. Deferred Revenue, Intangibles, Net and Other Liabilities

Deferred revenue and other liabilities consist of the unamortized fair value of below market lease liabilities recorded in connection with purchase accounting, retainage payables for development and redevelopment projects, and tenant rent payments received in advance of the month in which they are due. The amortization of below market lease liabilities is recognized as revenue over the remaining life of the leases (including option periods for leases with below market renewal options) through 2046. Tenant rent payments received in advance are recognized as revenue in the period to which they apply, which is typically the month following their receipt.

At September 30, 2018 and December 31, 2017, deferred revenue, intangibles, net and other liabilities consisted of the following:

	September 30, 2018	December 31, 2017
Unamortized below market lease liabilities	$ 72,237	$ 83,117
Retainage payables and other	3,154	3,954
Tenant rent payments received in advance	7,332	9,493
Total	$ 82,723	$ 96,564

The amortization of below market lease intangibles is included as a component of minimum rent in the accompanying consolidated statements and was $7.5 million and $5.7 million for the nine months ended September 30, 2018 and 2017, respectively.

Note 9. Commitments and Contingencies

Other Commitments and Contingencies

We are not subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against us. We are parties to routine litigation, claims, and administrative proceedings arising in the ordinary course of business. Management believes that such matters will not have a material adverse impact on our consolidated financial condition, results of operations or cash flows taken as a whole.

We are obligated under various completion guarantees with certain lenders and lease agreements with tenants to complete all or portions of the development and redevelopment projects. We believe we currently have sufficient financing in place to fund these projects and expect to do so primarily through borrowings on the Credit Facility.

In connection with the joint venture formed for the development of the Embassy Suites at Notre Dame, we provided a repayment guaranty on a $33.8 million construction loan, of which our share is $11.8 million (reflecting our 35% ownership interest in the hotel project). The outstanding loan balance as of September 30, 2018 is $29.3 million and our share is $10.3 million.

As of September 30, 2018, we had outstanding letters of credit totaling $4.1 million. At that date, there were no amounts advanced against these instruments.

Note 10. Disposals of Operating Properties and Recording of Impairment Charges

As of September 30, 2018, the Company has classified its Whitehall Pike operating property as held for sale. The Company has committed to a plan to sell this asset, and it expects that the sale of this asset will be completed in one year at a sales price that exceeds its carrying value.

During the three months ended June 30, 2018, we contributed our Livingston Shopping Center, Plaza Volente, and Tamiami Crossing operating properties to the TH Real Estate joint venture (see Note 2) for an agreed upon value of $99.8 million in exchange for a 20% ownership interest and $89.0 million in net proceeds. This transaction resulted in a net gain of $7.8 million.

The Company calculated the gain in accordance with ASC 606 and ASC 610-20 that require full gain recognition upon deconsolidation of a nonfinancial asset. This gain was calculated as the fair value of the properties (based upon the sales price for the 80% of interests) less the aggregate carrying value. The retained 20% equity method investment was recorded at fair value as of the transaction date of June 29, 2018, or $10.0 million.

As of June 30, 2018, in connection with the preparation and review of the financial statements, we evaluated two properties for impairment and recorded a $14.8 million impairment charge due to changes during the quarter in facts and circumstances underlying the Company's expected future hold period of these properties. A shortening of an expected future hold period is considered an impairment indicator under applicable accounting rules, and this indicator caused us to further evaluate the carrying value of these properties. We concluded the estimated undiscounted cash flows over the expected holding period did not exceed the carrying value of these assets, leading to the charge during the quarter. We estimated the fair value using Level 3 inputs within the fair value hierarchy, primarily using the market approach. We compared the estimated aggregate fair value of $30.4 million to the carrying values, which resulted in the recording of a non-cash impairment charge of $14.8 million for the three months ended June 30, 2018.

During the three months ended March 31, 2018, we sold our Trussville Promenade operating property in Birmingham, Alabama, and our Memorial Commons operating property in Goldsboro, North Carolina, for aggregate gross proceeds of $63.0 million and a net gain of $0.5 million.

During the three months ended June 30, 2017, we sold our Clay Marketplace operating property in Birmingham, Alabama, our Shops at Village Walk operating property in Fort Myers, Florida, and our Wheatland Towne Crossing operating property in Dallas, Texas for aggregate gross proceeds of $54.6 million and a net gain of $6.3 million

During the three months ended March 31, 2017, we sold our Cove Center operating property in Stuart, Florida, for gross proceeds of $23.1 million and a net gain of $8.9 million.

In connection with the preparation and review of the financial statements as of and for the three months ended March 31, 2018, we evaluated an operating property for impairment and recorded a $24.1 million impairment charge due to changes during the quarter in facts and circumstances underlying the Company’s expected future hold period of this property. A shortening of an expected future hold period is considered an impairment indicator under applicable accounting rules, and this indicator caused us to further evaluate the carrying value of this property. We concluded the estimated undiscounted cash flows over the expected holding period did not exceed the carrying value of a certain asset, leading to the charge during the quarter. We estimated the fair value of the property to be $24.3 million using Level 3 inputs within the fair value hierarchy, primarily using the market approach. We compared the estimated fair value to the carrying value, which resulted in the recording of a non-cash impairment charge of $24.1 million for the three months ended March 31, 2018. This property was contributed to the TH Real Estate joint venture.

In connection with the preparation and review of the March 31, 2017 financial statements, we evaluated an operating property for impairment due to the shortening of the intended holding period. We concluded the estimated undiscounted cash flows over the expected holding period did not exceed the carrying value of the asset. The Company estimated the fair value of the property to be $26.0 million using Level 3 inputs within the fair value hierarchy, primarily using the market approach. We compared the fair value measurement to the carrying value, which resulted in the recording of a non-cash impairment charge of $7.4 million for the three months ended March 31, 2017.

Note 11. Subsequent Events

Unsecured Term Loan

On October 25, 2018, the Operating Partnership entered into a Term Loan Agreement with KeyBank National Association as Administrative Agent, and the other lenders party thereto, providing for an unsecured term loan facility of up to $250 million (the “Term Loan”), which may be increased to $300 million subject to certain conditions, including lender commitments. The Term Loan has a scheduled maturity date of October 24, 2025, which maturity date may be extended for up to three additional periods of one year. The Term Loan ranks pari passu with the Operating Partnership’s existing $600 million unsecured revolving credit facility and $200 million unsecured term loan facility. Subject to certain exceptions, the Term Loan will bear interest at a rate of, at the Operating Partnership’s election, LIBOR plus an applicable margin of 200 to 255 basis points or a base rate plus an applicable margin of 100 to 155 basis points, in each case depending on the Operating Partnership’s leverage ratio.

The Operating Partnership made a draw on the Term Loan in the amount of $250 million on October 25, 2018. In connection with that closing, the Company paid $200.5 million to pay off all outstanding obligations and fees under the term loan agreement, dated as of October 26, 2015, among the Operating Partnership, KeyBank National Association as Administrative Agent, and the other lenders party thereto.

Other proceeds of the Term Loan will be used by the Operating Partnership for general corporate purposes.

Property Disposition

On November 1, 2018, the Company sold Lake Lofts at Deerwood for gross proceeds of approximately $20.0 million. These proceeds were utilized to pay down the Credit Facility.

Item 2.

Cautionary Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q, 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 and inflationary trends or outlook;
- 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 competition and the perception that such competition 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 Quarterly Report on Form 10-Q 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, including, in particular, the section titled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in connection with the accompanying historical financial statements and related notes thereto. In this discussion, unless the context suggests otherwise, references to "our Company," "we," "us," and "our" mean Kite Realty Group Trust and its direct and indirect subsidiaries, including Kite Realty Group, L.P.

Our Business and Properties

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 select 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.

At September 30, 2018, we owned interests in 115 operating and redevelopment properties totaling approximately 22.4 million square feet. We also owned one development project under construction as of this date.

At September 30, 2017, we owned interests in 117 operating and redevelopment properties totaling approximately 23.1 million square feet. We also owned two development projects under construction as of this date.

Current Quarter Activities

Investment Property

We believe that continually evaluating our operating properties for redevelopment and capital recycling opportunities enhances shareholder value and improves long-term values and economic returns. We initiated and advanced a number of these activities during the third quarter of 2018, including the following:

- Under Construction Redevelopment, Reposition, and Repurpose ("3-R") Projects. Our 3-R initiative, which includes a total of seven projects under construction or active evaluation for modification, continued to progress in the third quarter of 2018. There are three projects currently under construction, which have an estimated combined annualized return of approximately 9.0% to 10.0%, with aggregate costs for these projects expected to range from $24.5 million to $27.5 million.

The following significant activities occurred on the 3-R projects during the third quarter of 2018:

- Fishers Station in Indianapolis, Indiana – Kroger commenced with paying ground rent at this redevelopment, which property was transitioned back to the operating portfolio as of September 30, 2018.
- Beechwood Promenade in Athens, Georgia – Michael's opened during the current quarter. We are currently completing the remaining shop leasing and construction activity.
- Embassy Suites at Notre Dame. In September 2018, our joint venture successfully opened an Embassy Suites hotel that is a component of our Eddy Street Commons mixed use development. The Company has a 35% ownership interest in this hotel project.

Leasing Activity

During the third quarter of 2018, we executed 93 new and renewal leases totaling 445,608 square feet. New leases were signed on 33 individual spaces for 108,108 square feet of gross leasable area ("GLA"), while renewal leases were signed on 60 individual spaces for 337,500 square feet of GLA.

For comparable new leases, which are defined as those for which the space was occupied by a tenant within the last 12 months, we achieved a blended rent spread of 4.9% while incurring $6.63 per square foot of incremental capital improvement costs. The Company is making progress on its anchor repositioning efforts including the execution of two new anchor leases during the quarter and a total of six new anchor leases during 2018. In addition, two new anchor leases with REI and Burlington, respectively, were executed subsequent to September 30, 2018.

Results of Operations

The comparability of results of operations for the nine months ended September 30, 2018 and 2017 is affected by our development, redevelopment and operating property disposition activities during these periods. Therefore, we believe it is useful to review the comparisons of our results of operations for these periods in conjunction with the discussion of our activities during those periods, which is set forth below.

Property Dispositions

Since January 1, 2017, we sold the following operating properties:

Property Name	MSA	Disposition Date	Owned GLA
Cove Center	Stuart, FL	March 2017	155,063
Clay Marketplace	Birmingham, AL	June 2017	63,107
The Shops at Village Walk	Fort Myers, FL	June 2017	78,533
Wheatland Towne Crossing	Dallas, TX	June 2017	194,727
Trussville Promenade	Birmingham, AL	February 2018	463,836
Memorial Commons	Goldsboro, NC	March 2018	111,022
Plaza Volente [1]	Austin, TX	June 2018	156,215
Livingston Shopping Center [1]	Newark, NJ	June 2018	139,559
Tamiami Crossing [1]	Naples, FL	June 2018	121,705

1 The Company has retained a noncontrolling 20% ownership interest in this property.

Development Activities

The following retail development property became operational from January 1, 2017 through September 30, 2018:

Property Name	MSA	Transition to Operating Portfolio	Owned GLA
Parkside Town Commons – Phase II	Raleigh, NC	June 2017	291,713

Redevelopment Activities

The following properties were under active redevelopment at various times during the period from January 1, 2017 through September 30, 2018:

Property Name	MSA	Transition to Operations	Owned GLA
Courthouse Shadows[1]	Naples, FL	Pending	124,802
Hamilton Crossing Centre[1]	Indianapolis, IN	Pending	92,283
City Center [2]	White Plains, NY	June 2018	360,880
Fishers Station[5]	Indianapolis, IN	September 2018	175,229
Beechwood Promenade[1]	Athens, GA	Pending	348,815
The Corner[1]	Indianapolis, IN	Pending	26,500
Rampart Commons[1]	Las Vegas, NV	Pending	79,455
Northdale Promenade[3]	Tampa, FL	June 2017	173,862

Burnt Store Marketplace[4]	Punta Gorda, FL	March 2018	95,795

1 This property has been identified as a redevelopment property and is not included in the operating portfolio or the same property pool.

2 This property was transitioned to the operating portfolio in the second quarter of 2018; however, it remains excluded from the same property pool because it has not yet been in the operating portfolio four full quarters after the property was transitioned to operations.

3 This property was transitioned to the operating portfolio in the second quarter of 2017; however, it was included in the same property pool because starting with third quarter of 2018 after it had been in the operating portfolio for four full quarters after the property was transitioned to operations.

4 This property was transitioned to the operating portfolio in the first quarter of 2018; however, it remains excluded from the same property pool because it has not yet been in the operating portfolio four full quarters after the property was transitioned to operations.

5 This property was transitioned to the operating portfolio in the third quarter of 2018; however, it remains excluded from the same property pool because it has not yet been in the operating portfolio four full quarters after the property was transitioned to operations.

Comparison of Operating Results for the Three Months Ended September 30, 2018 to the Three Months Ended September 30, 2017

The following table reflects income statement line items from our consolidated statements of operations for the three months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		
($ in thousands)	2018	2017	Net change 2017 to 2018
Revenue			