KITE REALTY GROUP TRUST
Form 10-K
March 16, 2007

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the fiscal year ended December 31, 2006 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

(Exact name of registrant as specified in its charter)

| State of Organization: | IRS Employer Identification Number: |
|---|---|
| Maryland | 11-3715772 |

**30 S. Meridian Street, Suite 1100**
**Indianapolis, Indiana 46204**
**Telephone: (317) 577-5600**
**(Address, including zip code and telephone number, including area code, of principal executive offices)**

| Title of each class | Name of each Exchange on which registered |
|---|---|
| Common Shares, $0.01 par value | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes o No x

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. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in any definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

| | | | | | |
|---|---|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | x | Non-accelerated filer | o |

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12-b of the Act)
Yes o No x

The aggregate market value of the voting shares held by non-affiliates of the Registrant as the last business day of the Registrant s most recently completed second quarter was $430.6 million based upon the closing price of $15.59 per share on the New York Stock Exchange on such date.

The number of Common Shares outstanding as of March 9, 2007 was 28,882,323 ($.01 par value).

**Documents Incorporated by Reference**

Portions of the Proxy Statement relating to the Registrant s Annual Meeting of Shareholders, scheduled to be held on May 7, 2007, to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

**KITE REALTY GROUP TRUST**
**Annual Report on Form 10-K**
**For the Fiscal Year Ended**
**December 31, 2006**

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## PART I

### Forward-Looking Statements

This Annual Report on Form 10-K, together with other statements and information publicly disseminated by Kite Realty Group Trust (the Company ), 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 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;
- the ability of tenants to pay rent;
- the competitive environment in which the Company operates;
- financing risks;
- property ownership and management risks;
- the level and volatility of interest rates;
- the financial stability of tenants;
- the Company s ability to maintain its status as a real estate investment trust ( REIT ) for federal income tax purposes;
- acquisition, disposition, development and joint venture risks;
- potential environmental and other liabilities;
- other factors affecting the real estate industry generally; and
- other risks identified in this Annual Report on Form 10-K 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.

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

**ITEM 1. BUSINESS**

*Unless the context suggests otherwise, references to we, us, our or the Company refer to Kite Realty Group Trust and our business and operations conducted through our directly or indirectly owned subsidiaries, including Kite Realty Group, L.P., our operating partnership (the Operating Partnership ). References to Kite Property Group or the Predecessor mean our predecessor businesses.*

**Overview**

We are a full-service, vertically integrated real estate company engaged in the ownership, operation, management, leasing, acquisition, construction, expansion and development of neighborhood and community shopping centers and certain commercial real estate properties in selected growth markets in the United States. We also provide real estate facility management, construction, development and other advisory services to third parties.

As of December 31, 2006, we owned interests in a portfolio of 49 retail operating properties totaling approximately 7.6 million square feet of gross leasable area (including approximately 2.3 million square feet of non-owned anchor space) and 11 retail development properties that are expected to contain approximately 1.7 million square feet of total gross leasable area (including non-owned anchor space). Our retail operating portfolio was 93.4% leased as of December 31, 2006 to a diversified tenant base, with no single retail tenant accounting for more than 3.7% of our total annualized base rent. We also own interests in four commercial operating properties totaling approximately 563,000 square feet of net rentable area and an associated parking garage. Occupancy of our commercial operating portfolio was 91.7% as of December 31, 2006, with no single commercial tenant accounting for more than 2.4% of our annualized base rent. See Item 2. Properties for a list of our top 25 tenants by annualized base rent. In addition, we own interests in land parcels comprising approximately 115 acres that may be used for future development of retail or commercial properties or for expansion of existing properties. Our operating portfolio and land parcels are located in Indiana, Florida, Texas, Illinois, New Jersey, Georgia, Washington, Ohio, and Oregon.

We were formed in March 2004 and organized as a Maryland real estate investment trust. From inception until August 16, 2004, neither we, our Operating Partnership, nor our other subsidiaries had any operations. We commenced operations on August 16, 2004 after completing our initial public offering ( IPO ), concurrently with the consummation of various formation transactions that consolidated into our Operating Partnership the ownership of a portfolio of properties and property interests, and certain commercial real estate businesses of our predecessor, the Kite Property Group, a nationally recognized real estate owner and developer. Kite, Inc., a former affiliate of Kite Property Group, was founded in 1960 by our Chairman, Al Kite, and grew from an interior construction company to a full-service, vertically integrated real estate development, construction and management company. We conduct all of our business through our Operating Partnership, of which we are the sole general partner. As of December 31, 2006, we held an approximate 77% interest in our Operating Partnership.

**2006 Activities**

*Formation of Joint Venture with Prudential Real Estate Investors.* In September 2006, we announced an agreement (the Venture ) with Prudential Real Estate Investors ( PREI ) to pursue joint venture opportunities for the development and selected acquisition of community shopping centers in the United States. The Venture intends to develop or acquire up to $1.25 billion of well-positioned community shopping centers in strategic markets in the United States. Under the terms of the agreement, we have agreed to present to PREI opportunities to develop or acquire community shopping centers, each with estimated project costs in excess of $50 million. We have the option to present to PREI additional opportunities with estimated project costs under $50 million. It is expected that equity capital contributions of up to $500 million will be made to the Venture for qualifying projects. We expect contributions to be made on a project-by-project basis, with PREI contributing 80% and us contributing the remaining 20% of the equity required. The parties anticipate equity contributions will be required near the time of development stabilization or at the time a property acquisition is identified in the future. We expect to generate fee income from managing any shopping center properties developed or acquired under this arrangement and will receive additional fees for development, leasing and construction management services. We also expect to have the opportunity to earn performance-based incentives.

In December 2006, we contributed 100 acres of development land located in Cary, North Carolina to the Venture at a cost of $38.5 million. Our contribution includes the Venture s assumption of $35.6 million of variable rate debt. This project, which will be named Parkside Town Commons, is located in the Triangle of Raleigh, Durham, and Chapel Hill and is adjacent to Research Triangle Park. The site is zoned to support up to 750,000 square feet of retail space, in addition to office space and either residential units or a hotel. As of December 31, 2006, we owned a 40% interest in the Venture, which will be reduced to 20% upon the commencement of construction under the terms of the agreement with PREI.

*2006 Acquisition Activities.* During 2006, we completed the acquisition of three operating properties and one property that was purchased under construction and subsequently became operational. These four properties have a total of approximately 0.8 million square feet of gross leasable area (including non-owned anchor space) and were acquired for a total cost of $92.8 million (including assumed debt), as described below:

*Kedron Village.* On April 3, 2006 we purchased Kedron Village, a 282,124 square foot neighborhood shopping center under construction in Peachtree City, Georgia (a suburb of Atlanta), for a total purchase price of approximately $34.9 million, net of purchase price adjustments, including tenant improvement and leasing commission credits of $2.0 million, which was financed through variable rate debt and draws against our revolving credit facility. Kedron Village partially opened in the third quarter of 2006 and became fully operational during the fourth quarter.

*Naples, Florida Acquisitions*. On July 6, 2006, we acquired the following three 100 percent-leased shopping center properties in Naples, Florida for a total purchase price of approximately $57.9 million:

*Pine Ridge Crossing,* a 258,882 square foot neighborhood shopping center, for a total purchase price of approximately $22.6 million;

*Riverchase,* a 78,340 square foot neighborhood shopping center, for a total purchase price of approximately $15.5 million; and

*Courthouse Shadows,* a 134,867 square foot neighborhood shopping center, for a total purchase price of approximately $19.8 million.

To finance the purchase price for these properties, we incurred variable rate indebtedness of $57.9 million.

*2006 Development Activities.* During 2006, we added three land parcels to our development pipeline:

*Bayport Commons,* Oldsmar, Florida (a suburb of Tampa). We expect this development to be an estimated 281,100 square foot neighborhood shopping center (including 174,000 square feet of non-owned space to be occupied by Target) on approximately 29 acres. We expect Michaels and PetSmart to be additional anchor tenants. The project has a total estimated cost of approximately $25 million and an anticipated opening date in the second half of 2007;

*Cobblestone Plaza,* Pembroke Pines, Florida (a suburb of Fort Lauderdale). We expect this development to be an estimated 157,800 square foot neighborhood shopping center anchored by Whole Foods and Staples. The project has a total estimated cost of approximately $45 million and an anticipated opening date in late 2007 or early 2008; and

*$54^{th}$ & College,* Indianapolis, Indiana. We expect this development to be an estimated 20,100 square foot Fresh Market grocery store. We own this land and have signed a ground lease with the tenant. The project has a total estimated cost of approximately $2.5 million and has an anticipated opening date in the fourth quarter of 2007.

Also during 2006, we completed the following development properties and added them to our operating portfolio:

*Eagle Creek Lowe s*, a property adjacent to our Shops at Eagle Creek property and ground leased to Lowe s Home Improvement;

*Zionsville Place,* a 12,400 square foot neighborhood shopping center located in Zionsville, Indiana (a suburb of Indianapolis, Indiana);

*Geist Pavilion*, a 64,114 square foot neighborhood shopping center located in Fishers, Indiana (a suburb of Indianapolis, Indiana) and anchored by Ace Hardware and Party Tree, a locally owned party supply store;

*Traders Point II*, a 46,600 square foot community shopping center in Indianapolis, Indiana, located adjacent to our Traders Point property; and

*Red Bank Commons*, a 324,308 square foot neighborhood shopping center (including 212,000 square feet of non-owned anchor space) located in Evansville, Indiana, and shadow anchored by Wal-Mart and Home Depot.

In addition, two of our retail development properties became partially operational during 2006:

*Beacon Hill Shopping Center*, a 162,700 square foot neighborhood shopping center (including 105,500 square feet of non-owned anchor space) located in Crown Point, Indiana, shadow anchored by Strack & Van Til s, became partially operational in June 2006; and

*Naperville Marketplace*, a 169,600 square foot neighborhood shopping center (including 70,000 square feet of non-owned anchor space) located in Naperville, Illinois (a suburb of Chicago, Illinois), anchored by TJ Maxx, shadow anchored by Caputo s Fresh Market, became partially operational in August 2006.

*Distributions.* In 2006, we declared two quarterly cash distributions of $0.1875 per common share and two quarterly cash distributions of $0.195 per common share (which is equivalent to an annual distribution of $0.765 per common share).

**Business Strategy**

Our primary business objectives are to generate increasing cash flow, achieve sustainable long-term growth and maximize shareholder value primarily through the development, acquisition and operation of well-located community and neighborhood shopping centers. We seek to implement our business objectives by:

successfully completing the construction and lease-up of our development portfolio;

continuing to pursue land parcels in attractive markets that can support retail development;

acquiring well-located, high-quality retail properties or portfolios through our investment and market selection process;

maintaining a focused property management and leasing strategy;

selling certain assets and recycling capital; and

leveraging our construction and advisory services businesses.

*Development Activities*. We serve as an in-house and third-party developer for national retailers and other clients, providing a broad range of services that include site selection, development incentives procurement, design, leasing, construction and property management. As a vertically integrated real estate company, we control all aspects of the development process from design to operation, which improves our ability to deliver a quality product to our tenants on budget and on time. We have in-house capabilities and expertise in project design, development, leasing, construction and property management. Our construction expertise enables us to better identify and complete redevelopment and value-enhancing acquisition opportunities. We believe that our vertically integrated platform allows us to achieve attractive risk-adjusted returns on our development projects while substantially mitigating the risks associated with ground-up development.

We have an extensive current development pipeline that includes projects for which construction has commenced. We expect our current development pipeline to be a significant source of growth for us over the next several years. As of December 31, 2006, we had 11 retail properties in the development pipeline that are expected to contain approximately 1.7 million square feet, of which approximately 0.7 million square feet will be owned by us and, in some cases, through joint ventures with the remainder to be owned by anchor stores upon completion of the development. The total estimated cost for these properties, including our share and our joint venture partners share, is approximately $201.1 million, of which approximately $119.1 million had been incurred as of December 31, 2006. Our share of the total estimated cost is approximately $134.0 million, of which we had incurred approximately $81.9 million as of December 31, 2006.

In addition to our current development pipeline, we have a significant visible shadow development pipeline which includes land parcels that are in the final stages of preparation for construction to commence. As of December 31, 2006, this visible shadow pipeline consisted of three projects that are expected to contain approximately 1.2 million square feet, at a total estimated project cost of approximately $244 million. Finally, as of December 31, 2006, we also owned interests in undeveloped land parcels comprising approximately 115 acres that represent future retail and commercial development opportunities, either in the form of expansion of existing properties or development of new retail properties. We believe our extensive development pipeline creates substantial opportunities to increase cash flow and create long-term shareholder value.

*Property Acquisitions and our Investment and Market Selection Process.* We seek to develop and acquire primarily neighborhood and community shopping centers in neighborhood trade areas with attractive demographics. When specific markets are selected, we seek a convenient and easily accessible location, preferably occupying a dominant corner that has abundant parking facilities, is close to residential communities, and has excellent visibility for our tenants and easy access for neighborhood shoppers. Our selection process emphasizes the following factors:

**Market and Trade Area**: In order to take advantage of our current resources and create economies of scale, our development and acquisition activities are focused primarily in or near the markets in which we currently operate or in which we have had previous experience. By having a presence in a market and developing relationships in that market, we have a greater awareness of market trends and opportunities.

We evaluate each market based on appropriate criteria and prospective use, including:

- historical and projected population growth;
- average household income and density of population within a one-, three- or five-mile radius of the center, depending on the characteristics of the property;
- transportation patterns and infrastructure;
- barriers to the development of competing centers; and
- diverse employment base.

We also consider opportunities to expand into other geographic markets if we believe those markets have favorable long-term growth prospects.

**Property Characteristics**: We focus on neighborhood and community shopping centers anchored by market-leading retailers or smaller operators with dominant niche positions. In addition, we focus on the presence of one or more additional anchors for these centers, including off-price retailers, office superstores, grocers and fabric and clothing retailers, all of which we believe increase traffic at the centers and are generally beneficial to the value of the center. We also seek properties with a diverse tenant mix that includes service retailers, such as banks, florists, video stores, restaurants, and apparel and specialty shops. We target dominant shopping centers that generate a steady, repetitive flow of traffic by providing staple goods to the community and offering a high level of convenience with ease of access and abundant parking.

We plan to focus our new investments in the shopping center sector, but also may selectively pursue commercial development opportunities in markets where we currently operate and where we believe we can leverage our existing infrastructure and relationships to generate attractive risk adjusted returns. In evaluating future investments in properties other than neighborhood and community shopping centers, we seek properties or transactions that have unique characteristics that present a compelling case for investment. Examples might include properties having high entry yields, properties that are outside of our target markets but are being sold as part of a portfolio package, properties that are debt-free, a transaction in which we might issue units in our Operating Partnership or properties that provide substantial growth potential through redevelopment.

**Retailer Relationships**: We seek to partner with key tenants and retailers, such as Lowe s, Walgreens, Old Navy, Bed Bath & Beyond, Staples, Publix, Kohl s, Target and Wal-Mart, to identify attractive investments in new and existing markets. We seek to maintain strong tenant and retailer relationships in order to avoid rent interruptions and reduce marketing, leasing and tenant improvement costs that result from re-tenanting space.

We believe we will continue to source a significant volume of growth opportunities through the extensive network of tenant, corporate and institutional relationships we have established through our Predecessor over the past four decades. Additionally, we believe our status as a publicly traded umbrella partnership REIT will enhance our ability to acquire properties from tax-motivated sellers through the use of Operating Partnership units as consideration, thereby providing sellers with liquidity and diversification while providing the opportunity for substantial deferral of income taxes that otherwise would be due as a result of a cash sale.

*Property Management and Leasing Strategy*. We believe that focused property management, leasing and tenant retention are essential to maximizing the cash flow and value of our properties. While our property management and leasing functions are supervised and administered by personnel at our principal executive office, we do at times engage third party companies for property management functions at our properties.

Our primary goal in property management is to maintain an attractive shopping environment on a cost effective basis for our tenants. Our property managers maintain regular contact with our tenants and frequently visit each asset to supervise the local personnel and to ensure the proper implementation and execution of our policies and directives. As part of our ongoing property management, we conduct regular physical property reviews to improve our properties, react to changing market conditions and ensure proper maintenance. In addition, we have a competitive bid process for the majority of our service contracts. In the future, we may establish regional offices in certain markets such as Florida, where we plan to expand our current operations through additional acquisitions and development.

Our relationships with several national retailers that currently occupy space at our properties are the cornerstone of our overall leasing strategy. These nationally recognized anchors enhance the stability and attractiveness of our properties by driving customer traffic, thereby enhancing the performance of our non-anchor tenants and small shops. Due to the importance of these anchors to our business, our leasing and development teams work closely with each retailer on site selection and expansion opportunities within our current and future portfolio. This focused coverage allows us to anticipate space needs, fill vacant space in our existing portfolio, and identify opportunities to enter into new markets.

Our leasing representatives have become experts in the markets in which we operate by familiarizing themselves with current tenants as well as potential local, regional and national tenants that would complement our current tenant base. In addition, we utilize a network of brokers to source a variety of tenants for our properties. We also study demographics, tenant sales and merchandising mix to optimize the sales performance of our centers and thereby increase rents. We believe this hands-on approach maximizes the value of our shopping centers.

*Disposition Strategy*. We review each of our assets on a regular basis to determine the appropriate capital strategy for the asset. This review involves weighing the asset s future potential growth against its current market value. Subject to REIT qualification rules, avoidance of the 100% prohibited transactions tax applicable to REITs and tax protection obligations that we undertook in connection with our formation transactions, we will consider disposing of properties if we determine that a sale of a property would be in our best interests based on the price being offered for the property, the operating performance of the property, the tax consequences of the sale and other factors and circumstances surrounding the proposed sale. Property dispositions that would give rise to an indemnification obligation under the tax protection obligations we undertook in connection with our formation transactions are subject to approval by a majority of our independent trustees.

*Construction and Advisory Services Operations*. We provide general construction, construction management, design/build and complete site development services and have experience in corporate, institutional, hotel, medical and retail construction. KMI Realty Advisors ( KMI ), one of our subsidiaries, is a registered real estate advisor, providing strategic property services to both the public and private sectors. KMI provides a full range of real estate consulting services including portfolio management, due diligence, acquisition, development, financial, program management, facility management and disposition services. KMI utilizes resources from our development and construction operations to customize a real estate strategy to achieve specific client goals. In addition to being a continuing source of advisory income, we believe KMI will help facilitate future access to capital and avenues for growth.

**Financing Strategy**

We consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the additional borrowings, including the purchase price of properties to be developed or acquired with debt financing, the estimated market value of our properties upon refinancing and the ability of particular properties, as well as our Company as a whole, to generate cash flow to cover expected debt service.

Generally speaking, although we may incur any of the forms of indebtedness described below, we intend to focus primarily on financing future growth through the incurrence of secured debt on an individual property or a portfolio of properties. We may incur debt in the form of purchase money obligations to the sellers of properties, or in the form of publicly or privately placed debt instruments, financing from other banks, institutional investors, or other lenders, any of which may be unsecured or may be secured by mortgages or other interests in our properties. This indebtedness may be recourse, non-recourse or cross-collateralized and, if recourse, that recourse may include our general assets and, if non-recourse, may be limited to the particular property to which the indebtedness relates. In addition, we may invest in properties subject to existing loans secured by mortgages or similar liens on the properties, or may refinance properties acquired on a leveraged basis. We may use the proceeds from any borrowings for working capital, to purchase additional interests in partnerships or joint ventures in which we participate, to refinance existing indebtedness or to finance acquisitions, expansion, redevelopment of existing properties or development of new properties. We also may incur indebtedness for other purposes when, in the opinion of our board or management, it is advisable to do so. In addition, we may need to borrow to make distributions (including distributions that may be required under the Internal Revenue Code) if we do not have sufficient cash available to make those distributions.

**Business Segments**

Our principal business is the development, construction, acquisition, ownership and operation of high-quality neighborhood and community shopping centers in selected growth markets in the United States. We have aligned our operations into two business segments: (1) real estate operation and development, and (2) construction and advisory services. See Note 14 Segment Information in our Notes to Consolidated and Combined Financial Statements, contained in this Form 10-K, for information on our two business segments and the reconciliation of total segment revenues to total revenues, total segment operating income to operating income, total segment net income (loss) to net income (loss) and total segment assets to total assets for the years ended December 31, 2006, 2005 and 2004.

**Competition**

We encounter competition for development and acquisitions of existing income-producing properties. We believe that competition for the development, acquisition and operation of neighborhood and community shopping centers is highly fragmented. We face competition from institutional investors, other REITs and owner-operators engaged in the development, acquisition, ownership and leasing of shopping centers as well as from numerous local, regional and national real estate developers and owners in each of our markets. We also face competition in leasing available space at our properties to prospective tenants. The actual competition for tenants varies depending upon the characteristics of each local market in which we own and manage property. We believe that the principal competitive factors in attracting tenants in our market areas are location, price, the presence of anchor stores, and maintenance of properties.

**Government Regulation**

*Americans with Disabilities Act.* Our properties must comply with Title III of the Americans with Disabilities Act, or ADA, to the extent that such properties are public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and make alterations as appropriate in this respect.

*Environmental Regulations.* Some properties in our portfolio contain, may have contained or are adjacent to or near other properties that have contained or currently contain underground storage tanks for the storage of petroleum products or other hazardous or toxic substances. These operations may have released, or have the potential to release, such substances into the environment. In addition, some of our properties have tenants which may use hazardous or toxic substances in the routine course of their businesses.

As a general rule, these tenants have covenanted to use these substances, if any, in compliance with all environmental laws and have agreed to indemnify us for any damages we may suffer as a result of their use of such substances. However, these lease provisions may not fully protect us in the event that a tenant becomes insolvent. Finally, one of our properties has contained asbestos-containing building materials, or ACBM, and another property may have contained such materials based on the date of its construction. Environmental laws require that ACBM be properly managed and maintained, and fines and penalties may be imposed on building owners or operators for failure to comply with these requirements. The laws also may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers. We are not aware of any environmental issues that may materially affect the operation of any of our properties.

**Insurance**

We carry comprehensive liability, fire, extended coverage, and rental loss insurance that covers all properties in our portfolio. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss, the cost of the coverage, and industry practice. We do not carry insurance for generally uninsurable losses such as loss from riots, war or acts of God, and, in some cases, flooding. Some of our policies, such as those covering losses due to terrorism and floods, are insured subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover losses.

**Offices**

Our principal executive office is located at 30 S. Meridian Street, Suite 1100, Indianapolis, IN 46204. Our telephone number is (317) 577-5600.

**Employees**

We have 109 full-time employees. Of these employees, 82 are home office executive and administrative personnel and 27 are on-site management and administrative personnel.

**Available Information**

Our Internet website address is *www.kiterealty.com*. You can obtain on our website, free of charge, a copy of our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such reports or amendments with, or furnish them to, the SEC. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Also available on our website, free of charge, are copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate Governance Guidelines, and the charters for each of the committees of our Board of Trustees the Audit Committee, the Corporate Governance and Nominating Committee, and the Compensation Committee. Copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate Governance Guidelines, and our committee charters are also available in print and free of charge to any shareholder upon request. You can also obtain such copies in print by contacting our Investor Relations department by mail at our principal executive office.

**ITEM 1A. RISK FACTORS**

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by our management from time to time. These factors, among others, may have a material adverse effect on our business, financial condition, operating results and cash flows, and you should carefully consider them. It is not possible to predict or identify all such factors. You should not consider this list to be a complete statement of all potential risks or uncertainties. Past performance should not be considered an indication of future performance.

We have separated the risks into three categories:

- risks related to our operations;
- risks related to our organization and structure; and
- tax risks.

## RISKS RELATED TO OUR OPERATIONS

**We expect to continue to experience rapid growth and may not be able to adapt our management and operational systems to respond to the integration of additional properties without significant disruption or expense.**

We have rapidly expanded our business in recent years. Our portfolio includes 30 operating properties that we have acquired since 1999, including 17 since our IPO, which contain approximately 2.4 million square feet of owned gross leasable area. Since our IPO, we have delivered 14 properties from our development pipeline into our operating portfolio, and we currently have under construction 11 additional retail properties projected to total approximately 1.7 million square feet of gross leasable area (including non-owned anchor space). In addition to this active current development pipeline, we have additional land parcels that are in the final stages of preparation for the commencement of construction (our visible shadow pipeline). These parcels are expected to contain approximately 1.2 million square feet of gross leasable area. We also expect to continue to pursue additional acquisition and development opportunities.

As a result of the rapid growth of our portfolio, we cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems or hire and retain sufficient operational staff to integrate these properties into our portfolio and manage any future acquisitions of additional properties without operating disruptions or unanticipated costs. As we develop or acquire additional properties, we will be subject to risks associated with managing new properties, including tenant retention and mortgage default. In addition, acquisitions or developments may cause disruptions in our operations and divert management s attention away from day-to-day operations, which could impair our relationships with our current tenants, retailers and employees. In addition, our profitability may suffer because of acquisition-related costs or amortization costs for acquired intangible assets. Our failure to successfully integrate any future properties into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our shareholders.

**Our future developments, acquisitions and investment opportunities may not yield the returns we expect or may result in shareholder dilution.**

We expect to develop and/or acquire a number of real estate properties in the near future. Shareholders ultimately may not like the location, lease terms or other relevant economic and financial data of any real properties, other assets or other companies we may develop or acquire in the future. New developments are subject to a number of risks, including, but not limited to:

- abandonment of development activities after expending resources to determine feasibility;
- construction delays or cost overruns that may increase project costs;
- our investigation of a property or building prior to our acquisition, and any representations we may receive from the seller, may fail to reveal various liabilities or defects or identify necessary repairs until after the property is acquired, which could reduce the cash flow from the property or increase our acquisition costs;
- financing risks;
- the failure to meet anticipated occupancy or rent levels;
- failure to receive required zoning, occupancy, land use and other governmental permits and authorizations and changes in applicable zoning and land use laws; and
- the consent of third parties such as tenants, mortgage lenders and joint venture partners may be required, and

those consents may be difficult to obtain or be withheld.

In addition, if a project is delayed, certain tenants may have the right to terminate their leases. If any of these situations occur, development costs for a project will increase, which will result in reduced returns, or even losses, from such investments. In deciding whether to acquire or develop a particular property, we make certain assumptions regarding the expected future performance of that property. If these new properties do not perform as expected, our financial performance will be adversely affected. In addition, the issuance of equity securities for any acquisitions could be substantially dilutive to our shareholders.

**Our results of operations will be significantly influenced by the economies of the markets in which we operate, and the market for retail space generally.**

We are susceptible to adverse developments in the markets in which we operate, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics, increased Internet shopping, infrastructure quality, state budgetary constraints and priorities, increases in real estate and other taxes, costs of complying with government regulations or increased regulation and other factors. In addition, as of December 31, 2006, approximately 40% of our owned square footage and approximately 38% of our total annualized base rent is located in the State of Indiana, approximately 23% of our owned square footage and approximately 21% of our total annualized base rent is located in the State of Florida and approximately 20% of our owned square footage and approximately 21% of our total annualized base rent is located in the State of Texas, which exposes us to greater economic risks than if we owned properties in numerous geographic regions. Any adverse economic or real estate developments in Indiana, Florida, Texas, or the surrounding region, or any of the markets in which we operate, or any decrease in demand for retail space resulting from the local regulatory environment, business climate or fiscal problems, could adversely affect our financial condition, results of operations, cash flow, the trading price of our common shares and our ability to satisfy our debt service obligations and to pay distributions to our shareholders.

Moreover, because our portfolio of properties consists primarily of community and neighborhood shopping centers, a decrease in the demand for retail space may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio. The market for retail space has been and could be adversely affected by weakness in the national, regional and local economies, the adverse financial condition of some large retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets, and increasing consumer purchases through catalogues or the Internet. To the extent that any of these conditions occur, they are likely to affect market rents for retail space and could harm our business.

**We had approximately $567 million of consolidated indebtedness outstanding as of December 31, 2006, which may impede our operating performance and reduce our ability to incur additional indebtedness to fund our growth.**

Required repayments of debt and related interest can adversely affect our operating performance. We had approximately $567 million of consolidated outstanding indebtedness as of December 31, 2006. Approximately $170.7 million of this debt (as reduced by $50 million of interest rate swaps) was at variable interest rates. Interest rates are currently low relative to historical levels and may increase significantly in the future. If our interest expense increased significantly, it would adversely affect our results of operations.

We use a combination of interest rate protection agreements, including interest rate swaps, to manage risk associated with interest rate volatility. This may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition.

We also intend to incur additional debt in connection with future developments and acquisitions of properties. Our organizational documents do not limit the amount of indebtedness that we may incur. We may borrow new funds to develop or acquire properties. In addition, we may incur or increase our mortgage debt by obtaining loans secured by some or all of the real estate properties we develop or acquire. We also may borrow funds if necessary to satisfy the requirement that we distribute to shareholders at least 90% of our annual REIT taxable income, or otherwise as is necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes or otherwise avoid paying taxes that can be eliminated through distributions to our shareholders.

Our substantial debt may harm our business and operating results by:

- requiring us to use a substantial portion of our funds from operations to pay interest, which reduces the amount available for distributions;
- placing us at a competitive disadvantage compared to our competitors that have less debt;
- making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions; and
- limiting our ability to borrow more money for operating or capital needs or to finance acquisitions in the future.

In addition to the risks discussed above and those normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest, we also are subject to the risk that we will not be able to refinance the existing indebtedness on our properties (which, in most cases, will not have been amortized fully at maturity) or obtain permanent financing on development projects we financed with construction loans or mezzanine debt, and that the terms of any refinancing we could obtain would not be as favorable as the terms of our existing indebtedness. If we are not successful in refinancing this debt when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations.

**Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.**

As of December 31, 2006, all of our indebtedness was secured by our real estate assets. If a property or group of properties is mortgaged to secure payment of debt and we are unable to meet mortgage payments, the holder of the mortgage or lender could foreclose on the property, resulting in loss of our investment. Also, certain of these mortgages contain customary negative covenants which, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property, to enter into new leases or materially modify existing leases, and to discontinue insurance coverage.

**Our financial covenants may restrict our operating and acquisition activities.**

Our revolving credit facility contains certain financial and operating covenants, including, among other things, certain coverage ratios, as well as limitations on our ability to incur debt, make dividend payments, sell all or substantially all of our assets and engage in mergers and consolidations and certain acquisitions. These covenants may restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of the financial covenants could cause an event of default under and/or accelerate some or all of our indebtedness, which could have a material adverse effect on us.

**Failure by any major tenant with leases in multiple locations to make rental payments to us, because of a deterioration of its financial condition or otherwise, could seriously harm our performance.**

We derive the majority of our revenue from tenants who lease space from us at our properties. Therefore, our ability to generate cash from operations is dependent on the rents that we are able to charge and collect from our tenants. Our leases generally do not contain provisions designed to ensure the creditworthiness of our tenants. At any time, our tenants may experience a downturn in their business that may significantly weaken their financial condition. As a result, our tenants may delay lease commencements, decline to extend or renew leases upon expiration, fail to make rental payments when due, close a number of stores or declare bankruptcy. Any of these actions could result in the termination of the tenant s leases and the loss of rental income attributable to the terminated leases. In addition, lease terminations by a major tenant or non-owned anchor or a failure by that major tenant or non-owned anchor to occupy the premises could result in lease terminations or reductions in rent by other tenants in the same shopping centers under the terms of some leases. In that event, we may be unable to re-lease the vacated space at attractive rents or at all. The occurrence of any of the situations described above, particularly if it involves a substantial tenant or a non-owned anchor with ground leases in multiple locations, could seriously harm our performance. As of December 31, 2006, the five largest tenants in our operating portfolio in terms of annualized base rent were Lowe s Home Improvement, Circuit City, Publix, the State of Indiana, and Marsh Supermarkets, with scheduled annualized base rents for each representing 3.7%, 2.8%, 2.7%, 2.4%, and 2.4%, respectively, of our total annualized base rent.

**We may be unable to collect balances due from any tenants in bankruptcy.**

We cannot assure you that any tenant that files for bankruptcy protection will continue to pay us rent. A bankruptcy filing by or relating to one of our tenants or a lease guarantor would bar all efforts by us to collect pre-bankruptcy debts from that tenant or the lease guarantor, or their property, unless we receive an order permitting us to do so from the bankruptcy court. A tenant or lease guarantor bankruptcy could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any unsecured claim we hold may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, it is likely that we will recover substantially less than the full value of any unsecured claims we hold from a tenant in bankruptcy.

**Our current and future joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners financial condition, any disputes that may arise between us and our joint venture partners and our exposure to potential losses from the actions of our joint venture partners.**

As of December 31, 2006, we owned four of our operating properties through joint ventures, two of which were accounted for using the equity method as we do not exercise requisite control for consolidation treatment. For the twelve months ended December 31, 2006, the four properties represented approximately 7% of our annualized base rent. In addition, seven of the properties in our development pipeline are currently owned through joint ventures. We also owned a non-controlling interest in one parcel of land that was accounted for under the equity method as of December 31, 2006 as we do not exercise requisite control for consolidation treatment. We have also entered into an agreement with PREI to pursue joint venture opportunities for the development and selected acquisition of community shopping centers in the United States. These joint ventures involve risks not present with respect to our wholly owned properties, including the following:

- we may share decision-making authority with our joint venture partners regarding major decisions affecting the ownership or operation of the joint venture and the joint venture property, such as the sale of the property or the making of additional capital contributions for the benefit of the property, which may prevent us from taking actions that are opposed by our joint venture partners;
- prior consent of our joint venture partners may be required for a sale or transfer to a third party of our interests in the joint venture, which restricts our ability to dispose of our interest in the joint venture;
- our joint venture partners might become bankrupt or fail to fund their share of required capital contributions, which may delay construction or development of a property or increase our financial commitment to the joint venture;
- our joint venture partners may have business interests or goals with respect to the property that conflict with our business interests and goals, which could increase the likelihood of disputes regarding the ownership, management or disposition of the property;
- disputes may develop with our joint venture partners over decisions affecting the property or the joint venture, which may result in litigation or arbitration that would increase our expenses and distract our officers and/or trustees from focusing their time and effort on our business, and possibly disrupt the day-to-day operations of the property