KITE REALTY GROUP TRUST
Form 10-Q
November 08, 2016

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, 2016

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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act.
Kite Realty Group Trust:

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

Kite Realty Group, L.P.:

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

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, 2016 was 83,545,986 ($.01 par value).

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2016 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, 2016 owned approximately 97.7% of the common partnership interests in the Operating Partnership (“General Partner Units”). The remaining 2.3% 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, 2016

TABLE OF CONTENTS

Part I. FINANCIAL INFORMATION

Item 1.

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

	September 30, 2016	December 31, 2015
Assets:		
Investment properties, at cost	$ 3,990,208	$ 3,933,140
Less: accumulated depreciation	(531,946)	(432,295)
	3,458,262	3,500,845
Cash and cash equivalents	28,793	33,880
Tenant and other receivables, including accrued straight-line rent of $27,875 and $23,809, respectively, net of allowance for uncollectible accounts	50,350	51,101
Restricted cash and escrow deposits	9,585	13,476
Deferred costs and intangibles, net	133,114	148,274
Prepaid and other assets	10,814	8,852
Total Assets	$ 3,690,918	$ 3,756,428
Liabilities and Equity:		
Mortgage and other indebtedness, net	$ 1,732,344	$ 1,724,449
Accounts payable and accrued expenses	93,440	81,356
Deferred revenue and intangibles, net and other liabilities	120,550	131,559
Total Liabilities	1,946,334	1,937,364
Commitments and contingencies	—	—
Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests	99,478	92,315
Equity:		
Kite Realty Group Trust Shareholders' Equity:		
Common Shares, $.01 par value, 225,000,000 shares authorized, 83,545,486 and 83,334,865 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	835	833
Additional paid in capital and other	2,049,702	2,050,545
Accumulated other comprehensive loss	(8,738)	(2,145)
Accumulated deficit	(397,391)	(323,257)
Total Kite Realty Group Trust Shareholders' Equity	1,644,408	1,725,976
Noncontrolling Interests	698	773
Total Equity	1,645,106	1,726,749
Total Liabilities and Equity	$ 3,690,918	$ 3,756,428

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

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,	
	2016	2015	2016	2015
Revenue:				
Minimum rent	$69,518	$66,279	$205,436	$196,656
Tenant reimbursements	17,531	16,787	52,691	51,891
Other property related revenue	2,073	4,081	7,120	9,163
Total revenue	89,122	87,147	265,247	257,710
Expenses:				
Property operating	11,916	11,994	35,454	36,519
Real estate taxes	10,690	10,045	32,327	29,821
General, administrative, and other	5,081	4,559	15,228	14,131
Transaction costs	—	1,089	2,771	1,550
Depreciation and amortization	45,543	42,549	131,625	124,196
Total expenses	73,230	70,236	217,405	206,217
Operating income	15,892	16,911	47,842	51,493
Interest expense	(17,139)	(13,881)	(47,964)	(40,995)
Income tax expense of taxable REIT subsidiary	(15)	(9)	(763)	(134)
Gain on settlement	—	—	—	4,520
Other expense, net	—	(60)	(94)	(189)
(Loss) income before gain on sale of operating properties	(1,262)	2,961	(979)	14,695
Gain on sales of operating properties	—	—	194	3,363
Consolidated net (loss) income	(1,262)	2,961	(785)	18,058
Net income attributable to noncontrolling interests	(420)	(435)	(1,391)	(1,626)
Net (loss) income attributable to Kite Realty Group Trust	$(1,682)	$2,526	$(2,176)	$16,432
Dividends on preferred shares	—	(2,114)	—	(6,342)
Net (loss) income attributable to common shareholders	$(1,682)	$412	$(2,176)	$10,090
Net (loss) income per common share - basic & diluted	$(0.02)	$0.00	$(0.03)	$0.12
Weighted average common shares outstanding - basic	83,474,348	83,325,074	83,399,813	83,453,660
Weighted average common shares outstanding - diluted	83,474,348	83,433,379	83,399,813	83,566,554
Common dividends declared per common share	$0.2875	$0.2725	$0.8625	$0.8175
Consolidated net (loss) income	$(1,262)	$2,961	$(785)	$18,058
Change in fair value of derivatives	3,185	(3,436)	(6,747)	(5,153)
Total comprehensive income (loss)	1,923	(475)	(7,532)	12,905
Comprehensive income attributable to noncontrolling interests	(493)	(399)	(1,237)	(1,507)
Comprehensive income (loss) attributable to Kite Realty Group Trust	$1,430	$(874)	$(8,769)	$11,398

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 Loss	Accumulated Deficit	Total
	Shares	Amount				
Balances, December 31, 2015	83,334,865	$ 833	$2,050,545	$ (2,145)	$(323,257)	$1,725,976
Stock compensation activity	68,392	1	3,640	—	—	3,641
Issuance of common shares under at-the-market plan, net	137,229	1	3,836	—	—	3,837
Other comprehensive loss attributable to Kite Realty Group Trust	—	—	—	(6,593)	—	(6,593)
Distributions declared to common shareholders	—	—	—	—	(71,958)	(71,958)
Net loss attributable to Kite Realty Group Trust	—	—	—	—	(2,176)	(2,176)
Exchange of redeemable noncontrolling interests for common shares	5,000	—	136	—	—	136
Adjustment to redeemable noncontrolling interests	—	—	(8,455)	—	—	(8,455)
Balances, September 30, 2016	83,545,486	$ 835	$2,049,702	$ (8,738)	$(397,391)	$1,644,408

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,	
	2016	2015
Cash flows from operating activities:		
Consolidated net (loss) income	$(785)	$18,058
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:		
Straight-line rent	(4,318)	(4,408)
Depreciation and amortization	135,369	126,580
Gain on sale of operating properties, net	(194)	(3,363)
Provision for credit losses	1,883	2,984
Compensation expense for equity awards	3,932	3,239
Amortization of debt fair value adjustment	(3,008)	(4,641)
Amortization of in-place lease liabilities, net	(5,822)	(2,148)
Changes in assets and liabilities:		
Tenant receivables and other	2,354	1,777
Deferred costs and other assets	(11,846)	(7,310)
Accounts payable, accrued expenses, deferred revenue and other liabilities	3,141	8,056
Payments on assumed earnout liability	—	(2,869)
Net cash provided by operating activities	120,706	135,955
Cash flows from investing activities:		
Acquisitions of interests in properties	—	(167,831)
Capital expenditures, net	(68,352)	(69,792)
Net proceeds from sales of operating properties	139	126,460
Collection of note receivable	500	—
Change in construction payables	621	1,005
Net cash used in investing activities	(67,092)	(110,158)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	4,383	—
Purchase of redeemable noncontrolling interests	—	(33,998)
Repurchases of common shares upon the vesting of restricted shares	(1,124)	(964)
Loan proceeds	550,194	640,895
Loan transaction costs	(7,280)	(3,032)
Loan payments and related financing escrows	(531,070)	(553,255)
Distributions paid – common shareholders	(70,650)	(67,191)
Distributions paid - preferred shareholders	—	(6,342)
Distributions paid – redeemable noncontrolling interests	(2,932)	(2,721)
Distributions to noncontrolling interests	(222)	(64)
Net cash used in financing activities	(58,701)	(26,672)
Net change in cash and cash equivalents	(5,087)	(875)
Cash and cash equivalents, beginning of period	33,880	43,826
Cash and cash equivalents, end of period	$28,793	$42,951

Non-cash investing and financing activities

Assumption of mortgages by buyer upon sale of properties	$—	$40,303
Assumption of debt in connection with acquisition of Chapel Hill Shopping Center including debt premiums of $223	—	18,473

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

7

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

	September 30, 2016	December 31, 2015
Assets:		
Investment properties, at cost	$ 3,990,208	$ 3,933,140
Less: accumulated depreciation	(531,946)	(432,295)
	3,458,262	3,500,845
Cash and cash equivalents	28,793	33,880
Tenant and other receivables, including accrued straight-line rent of $27,875 and $23,809, respectively, net of allowance for uncollectible accounts	50,350	51,101
Restricted cash and escrow deposits	9,585	13,476
Deferred costs and intangibles, net	133,114	148,274
Prepaid and other assets	10,814	8,852
Total Assets	$ 3,690,918	$ 3,756,428
Liabilities and Equity:		
Mortgage and other indebtedness, net	$ 1,732,344	$ 1,724,449
Accounts payable and accrued expenses	93,440	81,356
Deferred revenue and intangibles, net and other liabilities	120,550	131,559
Total Liabilities	1,946,334	1,937,364
Commitments and contingencies	—	—
Redeemable Limited Partners' and other redeemable noncontrolling interests	99,478	92,315
Partners Equity:		
Parent Company:		
Common equity, 83,545,486 and 83,334,865 units issued and outstanding at September 30, 2016 and December 31, 2015, respectively	1,653,146	1,728,121
Accumulated other comprehensive loss	(8,738)	(2,145)
Total Partners Equity	1,644,408	1,725,976
Noncontrolling Interests	698	773
Total Equity	1,645,106	1,726,749
Total Liabilities and Equity	$ 3,690,918	$ 3,756,428

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, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenue:				
Minimum rent	$69,518	$66,279	$205,436	$196,656
Tenant reimbursements	17,531	16,787	52,691	51,891
Other property related revenue	2,073	4,081	7,120	9,163
Total revenue	89,122	87,147	265,247	257,710
Expenses:				
Property operating	11,916	11,994	35,454	36,519
Real estate taxes	10,690	10,045	32,327	29,821
General, administrative, and other	5,081	4,559	15,228	14,131
Transaction costs	—	1,089	2,771	1,550
Depreciation and amortization	45,543	42,549	131,625	124,196
Total expenses	73,230	70,236	217,405	206,217
Operating income	15,892	16,911	47,842	51,493
Interest expense	(17,139)	(13,881)	(47,964)	(40,995)
Income tax expense of taxable REIT subsidiary	(15)	(9)	(763)	(134)
Gain on settlement	—	—	—	4,520
Other expense, net	—	(60)	(94)	(189)
(Loss) income before gain on sale of operating properties	(1,262)	2,961	(979)	14,695
Gain on sales of operating properties	—	—	194	3,363
Consolidated net (loss) income	(1,262)	2,961	(785)	18,058
Net income attributable to noncontrolling interests	(461)	(410)	(1,443)	(1,411)
Distributions on preferred units	—	(2,114)	—	(6,342)
Net (loss) income attributable to common unitholders	$(1,723)	$437	$(2,228)	$10,305
Allocation of net (loss) income:				
Limited Partners	$(41)	$25	$(52)	$215
Parent Company	(1,682)	412	(2,176)	10,090
	$(1,723)	$437	$(2,228)	$10,305
Net (loss) income per unit - basic & diluted	$(0.02)	$0.00	$(0.03)	$0.12
Weighted average common units outstanding - basic	85,417,753	85,238,537	85,336,859	85,214,390
Weighted average common units outstanding - diluted	85,417,753	85,346,842	85,336,859	85,327,283
Distributions declared per common unit	$0.2875	$0.2725	$0.8625	$0.8175
Consolidated net (loss) income	$(1,262)	$2,961	$(785)	$18,058
Change in fair value of derivatives	3,185	(3,436)	(6,747)	(5,153)
Total comprehensive income (loss)	1,923	(475)	(7,532)	12,905
Comprehensive income attributable to noncontrolling interests	(461)	(410)	(1,443)	(1,411)

Comprehensive income (loss) attributable to common unitholders	$1,462	$(885)	$(8,975)	$11,494

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 Loss	Total
Balances, December 31, 2015	$1,728,121	$ (2,145)	$1,725,976
Stock compensation activity	3,641	—	3,641
Capital Contribution from the General Partner	3,837	—	3,837
Other comprehensive loss attributable to Parent Company	—	(6,593)	(6,593)
Distributions declared to Parent Company	(71,958)	—	(71,958)
Net loss	(2,176)	—	(2,176)
Conversion of Limited Partner Units to shares of the Parent Company	136	—	136
Adjustment to redeemable noncontrolling interests	(8,455)	—	(8,455)
Balances, September 30, 2016	$1,653,146	$ (8,738)	$1,644,408

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,	
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Consolidated net (loss) income	$(785)	$18,058
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Contributions from the General Partner	4,383	—
Purchase of redeemable noncontrolling interests	—	(33,998)
Repurchases of common shares upon the vesting of restricted shares	(1,124)	(964)
Loan proceeds	550,194	640,895
Loan transaction costs	(7,280)	(3,032)
Loan payments and related financing escrows	(531,070)	(553,255)
Distributions paid – common unitholders	(70,650)	(67,191)
Distributions paid - preferred unitholders	—	(6,342)
Distributions paid – redeemable noncontrolling interests - subsidiaries	(2,932)	(2,721)
Distributions to noncontrolling interests	(222)	(64)
Net cash used in financing activities	(58,701)	(26,672)
Net change in cash and cash equivalents	(5,087)	(875)
Cash and cash equivalents, beginning of period	33,880	43,826
Cash and cash equivalents, end of period	$28,793	$42,951

Non-cash investing and financing activities

Assumption of mortgages by buyer upon sale of properties	$—	$40,303
Assumption of debt in connection with acquisition of Chapel Hill Shopping Center including debt premiums of $223	—	18,473

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, 2016
(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 selected 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, 2016 owned approximately 97.7% of the common partnership interests in the Operating Partnership (“General Partner Units”). The remaining 2.3% 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, 2016, we owned interests in 120 operating and redevelopment properties consisting of 109 retail properties, nine retail redevelopment properties, one office operating property and an associated parking garage. We also owned one development property under construction as of this date.

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, 2016 and for the three and nine months ended September 30, 2016 and 2015 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, 2015.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities, the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue 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.

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.

As of January 1, 2016, we adopted Accounting Standards Update ("ASU") 2015-02, Consolidation: Amendments to the Consolidation Analysis, as required. See the below section entitled "Recently Issued Accounting Pronouncements" for further details. 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. We also periodically reassess primary beneficiary status of the VIE. Prior to the adoption of ASC 2015-02, we treated one of our consolidated joint ventures as a VIE. As a result of the adoption of ASC 2015-02, we concluded that two additional previously-consolidated joint ventures of the Operating Partnership were VIEs as the partners did not have substantive participating rights and we were the primary beneficiary. As a result, as of September 30, 2016, we owned investments in three joint ventures that were VIEs in which we were the primary beneficiary. As of this date, these VIEs had total debt of $237.7 million, which were secured by assets of the VIEs totaling $498.9 million. The Operating Partnership guarantees the debt of these VIEs. These conclusions did not impact the Company's financial position or results of operations.

As part of the adoption of ASC 2015-02, the Company concluded the Operating Partnership was 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.

Beacon Hill

In June 2015, we acquired our partner's interest in our Beacon Hill operating property. The transaction was accounted for as an equity transaction as we retained our controlling financial interest.

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 noncontrolling interests in consolidated properties for the nine months ended September 30, 2016 and 2015 were as follows:

	2016	2015
Noncontrolling interests balance January 1	$773	$3,364
Net income allocable to noncontrolling interests, excluding redeemable noncontrolling interests	147	84
Distributions to noncontrolling interests	(222)	(87)
Acquisition of partner's interest in Beacon Hill	—	(2,353)
Noncontrolling interests balance at September 30	$698	$1,008

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, 2016 and December 31, 2015, 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 preferred dividends and noncontrolling interests in the consolidated properties based on the partners’ respective weighted average ownership interest. We adjust the redeemable

14

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, 2016 and 2015, 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,	
	2016	2015	2016	2015
Parent Company's weighted average basic interest in Operating Partnership	97.7%	97.8%	97.7%	97.9%
Limited partners' weighted average basic interests in Operating Partnership	2.3 %	2.2 %	2.3 %	2.1 %

At September 30, 2016 and December 31, 2015, the Parent Company's interest and the limited partners' redeemable noncontrolling ownership interests in the Operating Partnership were 97.7% and 2.3% and 97.8% and 2.2%, respectively.

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 were granted the right to redeem Limited Partner Units on or after August 16, 2005 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. For the nine months ended September 30, 2016 and 2015, respectively, 5,000 and 7,000 Limited Partner Units were exchanged for the same number of common shares of the Parent Company.

There were 1,942,840 and 1,901,278 Limited Partner Units outstanding as of September 30, 2016 and December 31, 2015, respectively. The increase in Limited Partner Units outstanding from December 31, 2015 is due primarily 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 subsequent to the merger with Inland Diversified and are accounted for as noncontrolling interests in these properties. The Class B units will become redeemable at our applicable partner's election at future dates generally beginning in March 2017 or October 2022 based on the applicable joint venture and the fulfillment of certain red