

KITE

2017
ANNUAL REPORT

DEAR FELLOW SHAREHOLDERS:

I am pleased to report that in 2017 our company continued progressing towards our strategic and operational goals.

In summary, we:

- **generated FFO, as defined by NAREIT, of \$174.7 million, or \$2.04 per diluted common share;**
- **executed 393 new and renewal leases for a total of 2.3 million square feet, both records for the company;**
- **increased same-property net operating income (“NOI”) by 2.9% for the comparable operating portfolio;**
- **surpassed our small-shop leased goal of 90%, reaching 90.5% at year-end;**
- **continued solid growth in annualized base rent (“ABR”), reaching \$16.32 per square foot;**
- **paid down debt with the majority of the \$78 million of proceeds generated from the sale of four non-core assets;**
- **completed Phase II development projects at Parkside Town Commons and Holly Springs Towne Center, both in the Raleigh, North Carolina area;**
- **completed seven projects in our Redevelopment, Repurpose, and Reposition (“3-R”) Program with a return of 12%; and**
- **maintained a strong, well-positioned balance sheet, with \$82.4 million of debt maturities through 2020, 92% of fixed rate debt, and a weighted average debt maturity of 5.5 years.**

At Kite, we believe that owning best-in-class real estate in high-quality markets is key to attracting superior tenants, which are the foundation for overall consumer satisfaction. The face of retail is changing, and we are proactively adapting our strategies to meet the resulting challenges. We are focused more than ever on enhancing the interactive experience our customers want, whether in the form of a premium movie theatre, a new fitness center, or a dining destination that keeps people returning time and time again.

Navigating through periods of tenant disruption has always been a part of our business. We are always planning for the future and how we can stay ahead of the game. Positioning ourselves strategically and having a regional presence allows us to effectively manage and lease our centers and position our tenants to succeed. We have committed the necessary resources to gain a deeper understanding of our customers and their consuming habits.

COMPANY HIGHLIGHTS

KRG
LISTED
NYSE

YEAR ENDED DECEMBER 31	2017	2016
FINANCIAL DATA (\$ in millions, except per share data)		
Total Revenue	\$358.8	\$354.1
FFO of the Operating Partnership, as adjusted	\$174.7	\$175.8
FFO per Weighted Average Diluted Common Share, as adjusted	\$2.04	\$2.06
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) ¹	\$244.2	\$242.8
Net Debt to EBITDA	6.9x	7.0x
Diluted Weighted Average Common Shares and Units Outstanding (in millions)	85.7	85.4
Cash Dividend per Common Share	\$1.23	\$1.17
Same Property NOI Increase	2.9%	2.9%

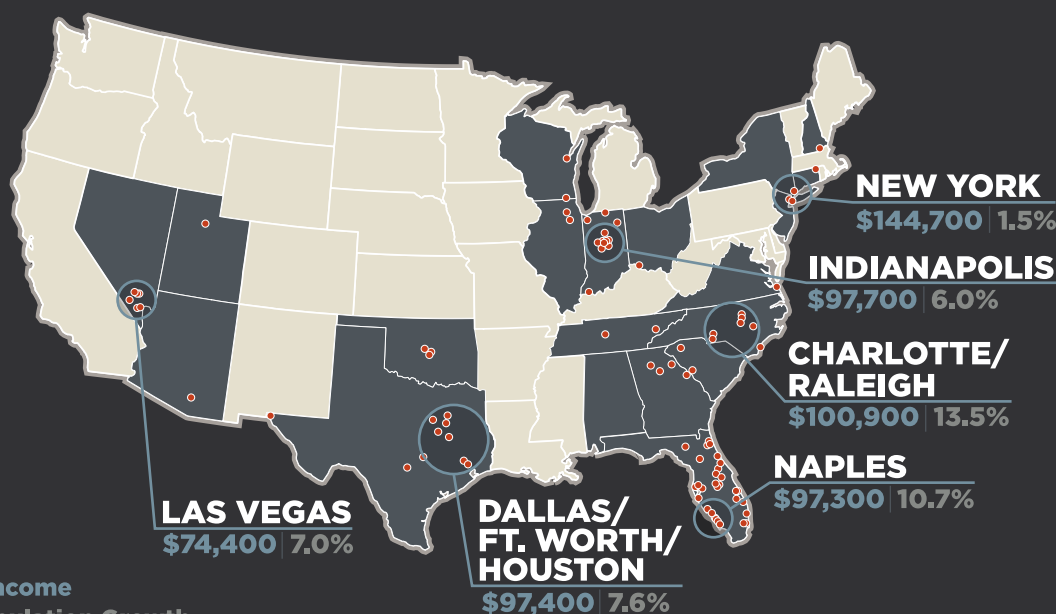
PROPERTY DATA		
Operating and Redevelopment Properties	117	119
Total Square Feet (GLA, in millions)	23.3	23.4
Operating Properties Leased Percentage	94.4%	95.5%

PORTFOLIO	# Properties	Total Square Feet	Owned Square Feet
Operating Properties	109	21,711,826	15,491,595
Redevelopment Properties	8	1,555,268	1,163,126
Development Projects	2	682,460	160,960
Total All Properties	119	23,949,554	16,815,681

**HIGH-QUALITY
PORTFOLIO**
COMPRISED OF ASSETS IN
**SUPERIORLY
POSITIONED
MARKETS²**

NATIONAL AVERAGE
\$79,500 | 4.0%

\$ = Average Household Income
% = Projected Annual Population Growth





RETAIL PORTFOLIO

As I mentioned last year, the real estate business is local, and our operating results continue to prove that our well-located portfolio is positioned for growth in emerging and sustainable markets. We are invested nationwide in key metropolitan areas, committed to providing customers with the optimized centers and experiences they desire. Approximately 80% of our properties are neighborhood and community centers that are anchored by groceries or otherwise

contain convenience-oriented businesses. With 93% of our portfolio comprised of internet-resistant or multi-channel businesses, we are well positioned to provide consumers unique and valuable offerings in our communities.

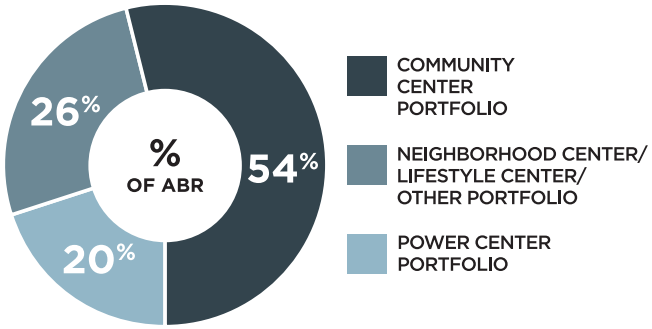
LEASING ACTIVITY

Representing the pulse of our business, our leasing team performed above and beyond expectations in 2017, and demand for space at our properties remains high.



DELRAY MARKETPLACE
Miami, FL (MSA) - 260,181 SF GLA

PROPERTY CLASSIFICATION BY ABR¹



Our well-balanced portfolio features a strategic mix of property types.

TOP MSA CASE STUDIES²

DALLAS/FT. WORTH/HOUSTON	INDIANAPOLIS/NORTHERN SUBURBS	RALEIGH/CARY/CHARLOTTE
AVERAGE HOUSEHOLD INCOME		
\$97,400	\$97,700	\$100,900
% OF ANNUALIZED BASE RENT		
10%	9%	9%
PROJECTED POPULATION GROWTH 2017-2022		
7.6%	6%	13.5%

Some of our top MSAs boast fundamentals that are significantly higher than the national average.

(1) STI: Popstats based on 2017 data on a 5-mile radius from the U.S. Census Bureau. Property classification based on definition by the International Council of Shopping Centers (ICSC). In summary:
Neighborhood Center: Convenience-oriented center often anchored by a grocery that comprises 30-50% of GLA. Trade Area: 1-3 miles.
Community Center: Larger center with general merchandise or convenience-oriented offerings. Trade Area: 3-6 miles.
Power Center: Category-dominant anchors, including discount, off-price, and wholesale clubs with minimal small shop tenants. Trade area: 5-10 miles.
 (2) 2017 National Average Household Income was \$79,500; 2017 National Projected Population Growth for 2017-2022 was 4.0%.

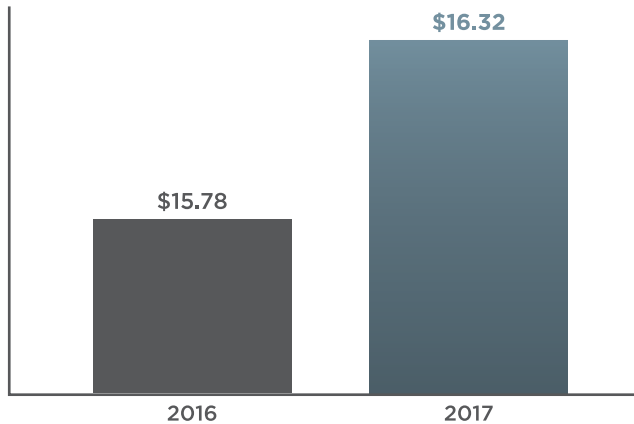
COOL CREEK COMMONS
Indianapolis, IN (MSA) - 124,272 SF GLA



As a result of our property management initiatives, our retail expense recovery ratio for the year was strong at 90.9%, which was 170 basis points better than in 2016.

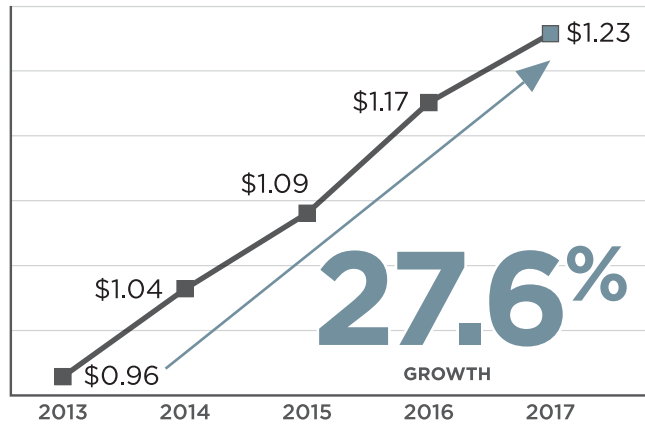


ANNUALIZED BASE RENT GROWTH



We achieved 3.4% ABR growth between 2016 and 2017.

DIVIDEND PER SHARE

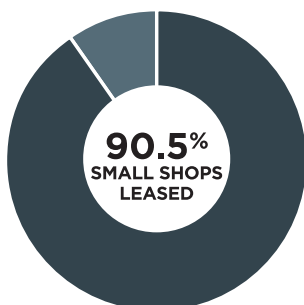


In late 2017, we increased our quarterly dividend another 5.0% while still maintaining a conservative payout ratio.

We achieved a new Kite record of total leases executed during the year, which is a testament to the quality of our assets and the team’s skill, dedication, and determination. More importantly, we accomplished this feat while increasing rent spreads and average base rent of the portfolio. Between 2016 and 2017, we grew our ABR by \$0.54 per square foot to \$16.32 – an increase of 3.4%.

Also, the ABR for leases executed during the year was 12.2% higher than the ABR for the overall operating retail portfolio (including 3-R properties), which we expect to drive same-property NOI growth in the future. Just as important, renewals were strong, as we had 48 anchor tenants renew their leases for a total of 1.3 million square feet. Closing out the year with our small shops leased at 90.5% was a huge milestone for us, and we have already set new, more aggressive goals to achieve.

SMALL SHOP LEASE %



We closed out 2017 with 90.5% of small shops leased, exceeding our goal.

Looking to 2018 and beyond, we remain extremely focused on re-leasing our vacant junior anchor spaces over the next 12 to 18 months as part of our Big Box Surge. We have had productive meetings with several prospects that have stimulated interest in the remaining spaces. We expect to

RAMPART COMMONS
Las Vegas, NV (MSA) - 75,455 SF GLA



3-R HIGHLIGHT

RAMPART COMMONS

In 2017, a transformative redevelopment effort began at Rampart Commons to offer an enhanced consumer experience and welcome five new-to-market tenants.



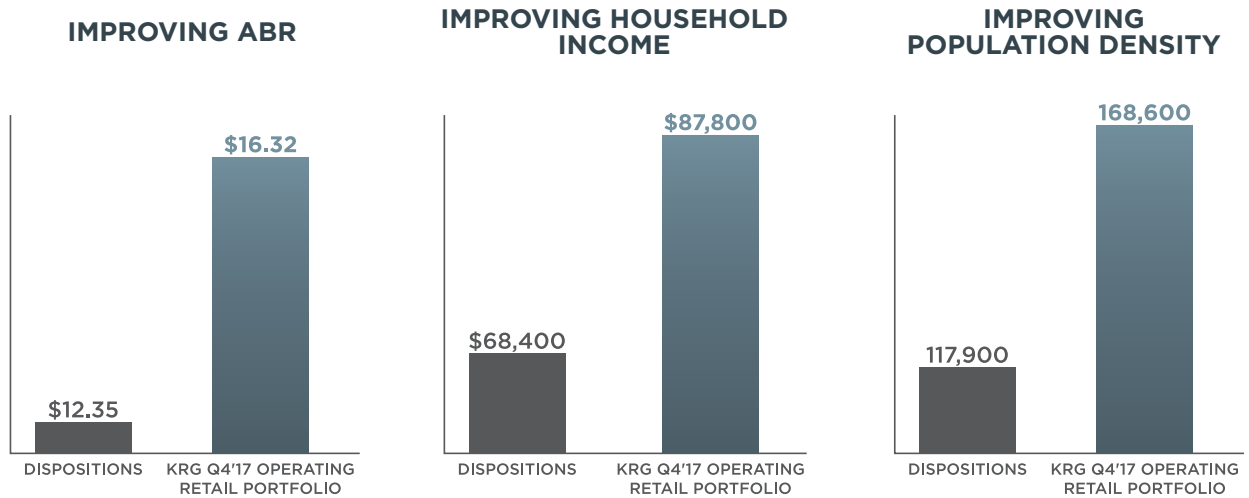
3-R HIGHLIGHT

CITY CENTER

New York, NY (MSA) - 360,880 SF GLA



CAPITAL RECYCLING HIGHLIGHTS



Our capital recycling efforts have strengthened our portfolio, with approximately \$92mm in dispositions over the last five quarters.

invigorate these properties with dynamic, customer-focused tenants to reinforce our long-term value creation.

3-R INITIATIVE AND CAPITAL RECYCLING

Over the course of the year, we made noteworthy progress on our 3-R Program. We completed several redevelopment projects in 2017, achieving an overall average return on these projects of 12%. In addition, we successfully delivered and transitioned two ground-up development projects at Parkside Town Commons and Holly Springs Towne Center into our operating portfolio.

To make these efforts a reality, we took advantage of the strong real estate market by continuing to prune the bottom of our portfolio. We sold \$78 million of non-core

assets during the year and used the proceeds for debt reduction and ongoing 3-R projects, with projected returns approaching 10%. Looking forward, we will seek asset intensification by incorporating office, hotel, and multi-family components.

OPERATIONS

Owning well-located properties is just one component of a successful real estate company. You also have to know how to operate the assets in a productive manner. We continue to take pride in our operating productivity, remaining at the top end of our peer group when it comes to NOI margin and maintaining efficient general and administrative expenditures. We have a proven history of solid same-property NOI growth, averaging 3.5% over the last four years. We understand that maintaining strong

Note: Demographic data source: STI: Popstats based on estimated 2017 data on a 5-mile radius from the US Census Bureau. Dispositions during this period were Publix at St. Cloud, Cove Center, Clay Marketplace, The Shops at Village Walk, and Wheatland Town Crossing.



2017 ENVIRONMENTAL SAVINGS FROM RECYCLE TONNAGE

	TOTAL TONS RECYCLED	5,241
	Yards of Landfill Space Saved	174,711
	Mature Trees Saved	89,103
	Gallons of Oil Saved	2,096,536
	kWhs Avoided	3,144,804
	Greenhouse Gases Prevented	41,931
	Truck Loads Prevented	998

2017 ENVIRONMENTAL SAVINGS FROM WASTE-TO-ENERGY TONNAGE

	TOTAL WTE TONS	1,514
	Pounds of Greenhouse Gases Prevented	3,028,880
	Energy Generated (kWhs)	832,942
	Number of Homes Powered for One Month	855

We're committed to environmental stewardship, highlighted by our participation in revolutionary waste-to-energy initiatives.



relationships with tenants is a key success driver in our industry. Our asset management team is in the field every day, interacting with tenants and making sure their needs are met. As a result of our property management initiatives, our retail expense recovery ratio for the year was strong at 90.9%, which was 170 basis points better than in 2016.

We are also partnering with vendors to be good stewards of the environment through increased recycling and efficiency efforts, including participating in significant

waste-to-energy initiatives. As each of our centers creates a local impact, it is important for us to serve and benefit the communities in which we, our tenants, and our customers work and live.

BALANCE SHEET

We continue to maintain a resilient, flexible balance sheet, verified by our investment grade rating by Moody's Investors Service and Standard & Poor's. At the end of 2017, we had only \$82.4 million of debt maturing through 2020, 92% of total debt is at a fixed rate with a weighted average term of 5.5 years, and

3-R HIGHLIGHT

PORTOFINO SHOPPING CENTER

In 2017, redevelopment continued at Portofino Shopping Center to reposition and optimize the center's offerings and welcome new anchor and shop tenants.



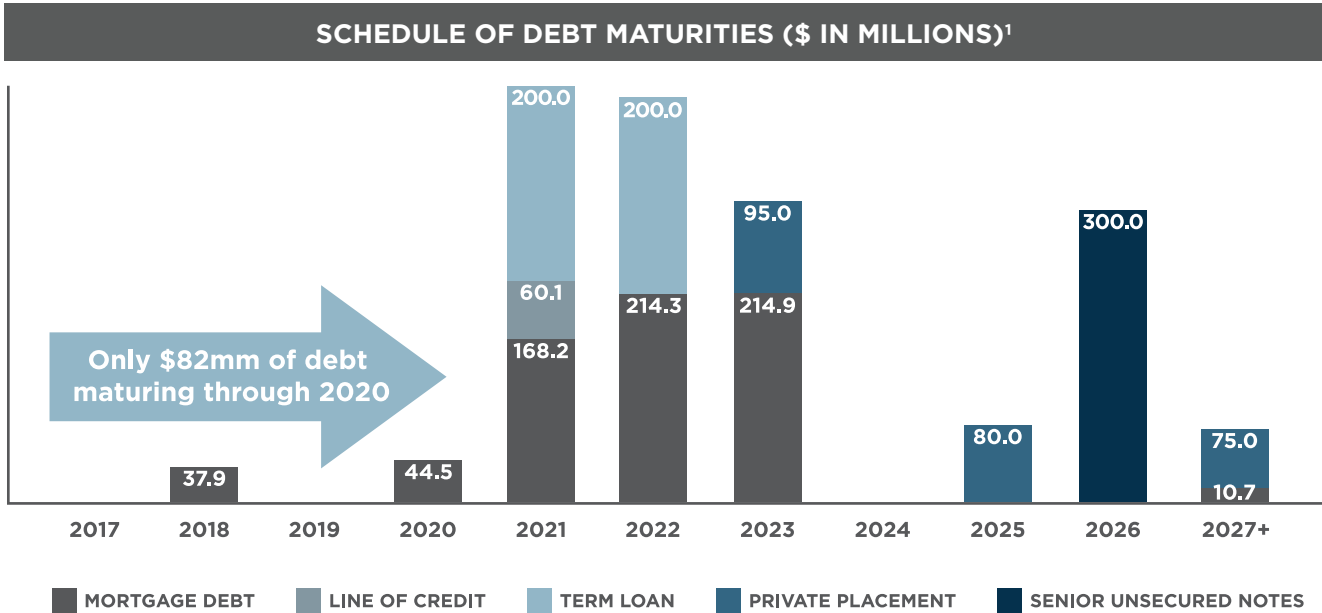
PORTOFINO SHOPPING CENTER
Houston, TX (MSA) - 386,647 SF GLA

NORDSTROM
rack





Closing out the year with our small shops leased at 90.5% was a huge milestone for us, and we have already set new, more aggressive goals to achieve.



At the end of 2017, we had only \$82.4 million of debt maturing through 2020, 92% of total debt is at a fixed rate with a weighted average term of 5.5 years, and we had a solid liquidity position of almost \$400 million.

we had a solid liquidity position of almost \$400 million. The team’s thoughtful planning over the years has been instrumental to placing us in a very solid position. Looking to the future, we will continue to opportunistically sell non-core assets to enhance our already strong balance sheet and further improve our ABR and demographics.

CASH DIVIDEND GROWTH

At the end of the day, we strive to bring value to our shareholders, who put a great deal of faith in us. In late 2017, we increased our quarterly dividend another 5.0% while still maintaining a conservative payout ratio. Our dividend per share has grown 27.6% since 2013.

CONCLUSION

I would like to thank our team members for their continued enthusiasm and dedication to achieving our goals and objectives, our Board of Trustees for valued guidance and counsel, and, most importantly, our shareholders for your support and trust in our company.



John A. Kite
Chairman and Chief Executive Officer

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017
- 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)
(317) 577-5600
(Registrant's telephone number, including area code)

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.

Kite Realty Group Trust	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	Kite Realty Group, L.P.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Kite Realty Group Trust	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	Kite Realty Group, L.P.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
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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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>	Kite Realty Group, L.P.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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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 No

Kite Realty Group, L.P. Yes No

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 definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Kite Realty Group Trust:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(do not check if a smaller reporting company)
Emerging growth company

Kite Realty Group, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(do not check if a smaller reporting company)
Emerging growth company

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act)

Kite Realty Group Trust Yes No

Kite Realty Group, L.P. Yes No

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as the last business day of the Registrant's most recently completed second quarter was \$1.6 billion based upon the closing price on the New York Stock Exchange on such date.

The number of Common Shares outstanding as of February 16, 2018 was 83,599,742 (\$.01 par value).

Documents Incorporated by Reference

Portions of the definitive Proxy Statement relating to the Registrant's Annual Meeting of Shareholders, scheduled to be held on May 9, 2018, 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.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2017 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, 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 December 31, 2017 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”) are owned by the limited partners.

We believe combining the annual reports on Form 10-K 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 incurrence 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
Annual Report on Form 10-K
For the Fiscal Year Ended
December 31, 2017

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Forward-Looking Statements

This Annual Report on Form 10-K, together with other statements and information publicly disseminated by us, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements, financial or otherwise, expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include but are not limited to:

- national and local economic, business, real estate and other market conditions, particularly in light of low growth in the U.S. economy as well as economic uncertainty caused by fluctuations in the prices of oil and other energy sources and inflationary trends or outlook;
- financing risks, including the availability of, and costs associated with, sources of liquidity;
- our ability to refinance, or extend the maturity dates of, our indebtedness;
- the level and volatility of interest rates;
- the financial stability of tenants, including their ability to pay rent and the risk of tenant bankruptcies;
- the competitive environment in which we operate;
- acquisition, disposition, development and joint venture risks;
- property ownership and management risks;
- our ability to maintain our status as a real estate investment trust for federal income tax purposes;
- potential environmental and other liabilities;
- impairment in the value of real estate property we own;
- the impact of online retail competition and the perception that such competition has on the value of shopping center assets;
- risks related to the geographical concentration of our properties in Florida, Indiana and Texas;
- insurance costs and coverage;
- risks associated with cybersecurity attacks and the loss of confidential information and other business disruptions;
- other factors affecting the real estate industry generally; and
- other risks identified in this Annual Report on Form 10-K and, in other reports we file from time to time with the Securities and Exchange Commission (the “SEC”) or in other documents that we publicly disseminate.

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

PART I

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”).

Overview

Kite Realty Group Trust is a publicly-held real estate investment trust which, through its majority-owned subsidiary, Kite Realty Group, L.P., owns interests in various operating subsidiaries and joint ventures engaged in the ownership, operation, acquisition, development, and redevelopment of high-quality neighborhood and community shopping centers in selected markets in the United States. We derive revenues primarily from activities associated with the collection of contractual rents and reimbursement payments from tenants at our properties. Our operating results therefore depend materially on, among other things, the ability of our tenants to make required lease payments, the health and resilience of the United States retail sector, interest rate volatility, job growth and overall economic and real estate market conditions.

As of December 31, 2017, we owned interests in 117 operating and redevelopment properties totaling approximately 23.3 million square feet. We also owned two development projects under construction as of this date. Our retail operating portfolio was 94.8% leased to a diversified retail tenant base, with no single retail tenant accounting for more than 2.5% of our total annualized base rent. In the aggregate, our largest 25 tenants accounted for 34.9% of our annualized base rent. See Item 2, “Properties” for a list of our top 25 tenants by annualized base rent.

Significant 2017 Activities

Operating Activities

We continued to drive strong operating results from our portfolio as follows:

- Net income attributable to common shareholders was \$11.9 million for the year ended December 31, 2017;
- Same Property Net Operating Income ("Same Property NOI") increased 2.9% in 2017 compared to 2016 primarily due to increases in rental rates, an increase in economic occupancy, and improved expense control and operating expense recovery;
- We executed leases on 393 individual spaces for approximately 2.3 million square feet of retail space, achieving a blended cash rent spread of 9.0% for comparable leases;
- Including the eight properties under redevelopment, our operating portfolio annual base rent per square foot as of December 31, 2017 was \$16.32, an increase of \$0.54 or 3.4% from the end of the prior year; and
- Small shop leased percentage was 90.5% as of December 31, 2017, an increase of 160 basis points over the prior year.

Development and Redevelopment Activities

We believe evaluating our operating properties for development and redevelopment opportunities enhances shareholder value as it will make them more attractive for leasing to new tenants and it improves long-term values and economic returns. We initiated, advanced, and completed a number of development and redevelopment activities in 2017, including the following:

- *Eddy Street Commons – Phase II* in South Bend, Indiana – Phase II of Eddy Street Commons is a mixed-use development at the University of Notre Dame that will include a retail component, apartments, townhomes,

and a community center. The total projected costs for the project are currently \$89.2 million. We are in the final stages of entering into a ground sublease with a multi-family developer who will fund the majority of these costs, leaving our share of the projected costs at \$8.4 million.

We also began construction of a full-service Embassy Suites hotel at Phase I of Eddy Street Commons, which we project will cost \$45.7 million to construct. In the fourth quarter of 2017, we entered into a joint venture in which we own a 35% non-controlling interest to develop and own this hotel. We expect our pro-rata share of the total estimated project costs to be \$13.9 million. Funding for both Eddy Street Commons projects will include a total of \$22.1 million in net tax increment financing proceeds.

- *Holly Springs Towne Center – Phase II* near Raleigh, North Carolina – O2 Fitness opened in December 2017, completing the Phase II expansion. This development is also anchored by Bed Bath & Beyond, DSW, and Carmike Theatres.
- *Parkside Town Commons – Phase II* near Raleigh, North Carolina – Phase II of this development is anchored by Frank CineBowl and Grille, Golf Galaxy, Stein Mart, and Hobby Lobby, the latter opening in December 2017. We transitioned this development project to the operating portfolio at the end of the second quarter of 2017. The property is 97.5% leased as of December 31, 2017.
- *Under Construction Redevelopment, Reposition, and Repurpose (“3-R”) Projects.* Our 3-R initiative continued to progress in 2017. There are a total of seven projects currently under construction, which have an estimated combined annualized return of approximately 8% to 9%, with an aggregate cost expected to range from \$71 million to \$77 million. Another four projects are under active evaluation.

We completed construction on the following 3-R projects during 2017:

- *Bolton Plaza* in Jacksonville, Florida – We replaced vacant shop space with Marshalls, which opened in March 2017, and Aldi, which opened in January 2018. Total costs were \$5.2 million, and the projected annual return is 10.5%.
- *Castleton Crossing* in Indianapolis, Indiana – We demolished certain existing space and created a new outparcel small shop building. The new tenants include Chipotle, Capriotti's and Verizon Wireless. Total costs were \$3.3 million, and the projected annual return is 11.8%.
- *Centennial Gateway* in Las Vegas, Nevada – We recaptured an existing anchor space and retenanted with Trader Joe's, which opened in June 2017. Total costs were \$1.1 million, and the projected annual return is 30.0%.
- *Market Street Village* in Fort Worth, Texas – We recaptured a 15,000 square foot anchor space and retenanted with Party City, which opened in April 2017. Total costs were \$0.8 million, and the projected annual return is 30.9%.
- *Northdale Promenade* in Tampa, Florida – We rightsized and demolished certain small shop space to add Ulta Beauty and Crispers, which opened in 2016, and Tuesday Morning, which opened in July 2017. Total costs were \$4.2 million, and the projected annual return is 14.4%.
- *Portofino Shopping Center - Phase I* in Houston, Texas – We constructed two small shop buildings on outparcels and added several tenants, including Mattress Firm and Destination XL. Total costs were \$5.1 million, and the projected annual return is 9.1%.
- *Trussville Promenade* in Birmingham, Alabama – We replaced vacant shop space with Ross Dress for Less, which opened in November 2017. Total costs were \$3.7 million, and the projected annual return is 9.5%.

We commenced construction on the following 3-R projects during 2017:

- *Beechwood Promenade* in Athens, Georgia – This project includes replacing vacant anchor and shop space with Michaels and constructing a new outlet for Starbucks. We expect total costs for this project to range between \$8 million to \$9 million, with an estimated annualized return of approximately 8.5% to 9.5%.
- *Burnt Store Promenade* in Punta Gorda, Florida – We completed construction on a new expanded Publix Supermarket, which opened in July 2017. We executed leases with Pet Supermarket, Inc., which opened in July 2017, and Anytime Fitness, which opened in October 2017. We expect to lease additional vacant shop space in 2018. We expect total costs for this project to range between \$9 million to \$10 million, with an estimated annualized return of approximately 10.5% to 11.5%.
- *Centennial Center* in Las Vegas, Nevada – This project will include repositioning two retail buildings totaling 14,000 square feet, construction of a new Panera Bread outlet, and enhancing buildings and improving access to the main entry point. We expect total costs for this project to range between \$4 million to \$5 million, with an estimated annualized return of approximately 10.0% to 11.0%.
- *Fishers Station* in Indianapolis, Indiana – We demolished the previous anchor space and executed a 123,000 square foot ground lease for a new Kroger Marketplace. We expect total costs for this project to range between \$10.5 million to \$11.5 million, with an estimated annualized return of approximately 9.5% to 10.5%.
- *Rampart Commons* in Las Vegas, Nevada – This project includes relocating, retenanting, and renegotiating leases as part of a new development plan. We will upgrade building facades and landscape throughout the center. This project is anchored by Williams Sonoma, Pottery Barn, Ann Taylor, North Italia, Athleta, Flower Child, Honey Salt and P.F. Chang's. We expect total costs for this project to range between \$16 million to \$17 million, with an estimated annualized return of approximately 7.0% to 7.5%.

Financing and Capital Raising Activities.

In 2017, we were able to maintain our strong balance sheet, financial flexibility and liquidity to fund future growth. We ended the year with approximately \$398 million of combined cash and borrowing capacity on our unsecured revolving credit facility. We have a well-laddered debt maturity schedule with only \$82.4 million maturing through December 31, 2020 and a debt service coverage ratio of 3.5x as of December 31, 2017. We have been assigned investment grade corporate credit ratings from two nationally recognized credit rating agencies. These ratings were unchanged during 2017.

Portfolio Recycling Activities

During 2017, we sold four non-core operating properties. These sales generated \$78 million of gross proceeds that were used to pay down our existing unsecured revolving credit facility and partially fund our redevelopment costs.

Cash Distributions

We declared total cash distributions of \$1.225 per common share with payment dates as follows:

Payment Date	Amount Per Share
April 13, 2017	\$ 0.3025
July 13, 2017	\$ 0.3025
October 13, 2017	\$ 0.3025
January 12, 2018	\$ 0.3175

Business Objectives and Strategies

Our primary business objectives are to increase the cash flow and value of our properties, achieve sustainable long-term growth and maximize shareholder value primarily through the operation, acquisition, development, and redevelopment of well-located community and neighborhood shopping centers. We invest in properties with well-located real estate and strong demographics, and we use our leasing and management strategies to improve the long-term values and economic returns of our properties. We believe the properties in our 3-R initiative represent attractive opportunities for profitable renovation and expansion.

We seek to implement our business objectives through the following strategies, each of which is more completely described in the sections that follow:

- *Operating Strategy:* Maximizing the internal growth in revenue from our operating properties by leasing and re-leasing to a diverse group of retail tenants at increasing rental rates, when possible, and redeveloping or renovating certain properties to make them more attractive to existing and prospective tenants and consumers;
- *Growth Strategy:* Using cash flow, equity, and debt capital prudently to selectively acquire additional retail properties and redevelop or renovate our existing properties where we believe that investment returns would meet or exceed internal benchmarks; and
- *Financing and Capital Preservation Strategy:* Maintaining a strong balance sheet with sufficient flexibility to fund our operating and investment activities. Funding sources include the public equity and debt market, our existing revolving credit facility, new secured debt, internally generated funds, proceeds from selling land and properties that no longer fit our strategy, and potential strategic joint ventures. We continuously monitor the capital markets and may consider raising additional capital when appropriate.

Operating Strategy. Our primary operating strategy is to maximize rental rates and occupancy levels by attracting and retaining a strong and diverse tenant base. Most of our properties are located in regional and neighborhood trade areas with attractive demographics, which allows us to maintain and, in many cases, increase occupancy and rental rates. We seek to implement our operating strategy by, among other things:

- increasing rental rates upon the renewal of expiring leases or re-leasing space to new tenants while minimizing vacancy to the extent possible;
- maximizing the occupancy of our operating portfolio;
- minimizing tenant turnover;
- maintaining leasing and property management strategies that maximize rent growth and cost recovery;
- maintaining a diverse tenant mix that limits our exposure to the financial condition of any one tenant or any category of tenants;
- maintaining and improving the physical appearance, condition, and design of our properties and other improvements located on our properties to enhance our ability to attract customers;
- implementing defensive strategies against e-commerce competition;
- actively managing costs to minimize overhead and operating costs;
- maintaining strong tenant and retailer relationships in order to avoid rent interruptions and reduce marketing, leasing and tenant improvement costs that result from re-leasing space to new tenants; and

- taking advantage of under-utilized land or existing square footage, reconfiguring properties for more profitable use, and adding ancillary income sources to existing facilities.

We successfully executed our operating strategy in 2017 in a number of ways, including Same Property NOI growth of 2.9%, or 3.2% excluding the impact of the 3-R initiative, a blended new and renewal cash leasing spread of 9.0%, and an increase in our small shop leased percentage to 90.5% as of year end, an increase of 160 basis points over the prior year. We have placed significant emphasis on maintaining a diverse retail tenant mix which has resulted in no tenant accounting for more than 2.5% of our annualized base rent. See Item 2, “Properties” for a list of our top tenants by gross leasable area ("GLA") and annualized base rent.

Growth Strategy. Our growth strategy includes the selective deployment of resources to projects that are expected to generate investment returns that meet or exceed our internal benchmarks. We implement our growth strategy in a number of ways, including:

- continually evaluating our operating properties for redevelopment and renovation opportunities that we believe will make them more attractive for leasing to new tenants, right sizing anchor space while increasing rental rates, or re-leasing to existing tenants at increased rental rates;
- disposing of selected assets that no longer meet our long-term investment criteria and recycling the net proceeds into assets that provide attractive returns and rent growth potential in targeted markets or using the proceeds to repay debt, thereby reducing our leverage; and
- selectively pursuing the acquisition of retail operating properties, portfolios and companies in markets with strong demographics.

In evaluating opportunities for potential acquisition, development, redevelopment and disposition, we consider a number of factors, including:

- the expected returns and related risks associated with the investments relative to our combined cost of capital to make such investments;
- the current and projected cash flow and market value of the property and the potential to increase cash flow and market value if the property were to be successfully re-leased or redeveloped;
- the price being offered for the property, the current and projected operating performance of the property, the tax consequences of the transaction, and other related factors;
- opportunities for improving the tenant mix at our properties through the placement of anchor tenants such as value retailers, grocers, soft goods stores, theaters, or sporting goods retailers, as well as an further enhancing a diverse tenant mix that includes restaurants, specialty shops, service retailers such as banks, dry cleaners and hair salons, and shoe and clothing retailers, some of which provide staple goods to the community and offer a high level of convenience;
- the configuration of the property, including ease of access, availability of parking, visibility, and the demographics of the surrounding area; and
- the level of success of existing properties in the same or nearby markets.

In 2017, we delivered nine development and 3-R projects to the operating portfolio, and we expect to deliver several more in 2018. Our 3-R initiative currently includes seven projects under construction with total estimated costs of \$71 million to \$77 million. In addition, we are currently evaluating additional opportunities at four of our operating properties, with total estimated costs expected to be in the range of \$40 million to \$56 million.

Financing and Capital Preservation Strategy. We finance our acquisition, development, and redevelopment activities seeking to use the most advantageous sources of capital available to us at the time. These sources may include the reinvestment of cash flows generated by operations, the sale of common or preferred shares through public offerings or private placements, the reinvestment of proceeds from the disposition of assets, the incurrence of additional indebtedness through secured or unsecured borrowings, and entering into real estate joint ventures.

Our primary financing and capital preservation strategy is to maintain a strong balance sheet and enhance our flexibility to fund operating and investment activities in the most cost-effective way. We consider a number of factors when evaluating the amount and type of additional indebtedness we may elect to incur. Among these factors are the construction costs or purchase prices of properties to be developed or acquired, the estimated market value of our properties and the Company as a whole upon consummation of the financing, and the ability to generate cash flow to cover expected debt service.

Strengthening our balance sheet continues to be one of our top priorities. We maintain an investment grade credit rating and completed an inaugural public offering of senior unsecured notes in 2016. We expect our investment grade credit rating will continue to enable us to opportunistically access the public unsecured bond market and will allow us to lower our cost of capital and provide greater flexibility in managing the acquisition and disposition of assets in our operating portfolio.

We intend to continue implementing our financing and capital strategies in a number of ways, which may include one or more of the following actions:

- prudently managing our balance sheet, including maintaining sufficient capacity under our unsecured revolving credit facility so that we have additional capacity available to fund our development and redevelopment projects and pay down maturing debt if refinancing that debt is not practical;
- extending the maturity dates of and/or refinancing our near-term mortgage, construction and other indebtedness;
- expanding our unencumbered asset pool;
- raising additional capital through the issuance of common shares, preferred shares or other securities;
- managing our exposure to interest rate increases on our variable-rate debt through the selective use of fixed rate hedging transactions;
- issuing unsecured bonds in the public markets, and securing property-specific long-term non-recourse financing; and
- entering into joint venture arrangements in order to access less expensive capital and to mitigate risk.

Competition

The United States commercial real estate market continues to be highly competitive. We face competition from other REITs and other owner-operators engaged in the ownership, leasing, acquisition, and development of shopping centers as well as from numerous local, regional and national real estate developers and owners in each of our markets. Some of these competitors may have greater capital resources than we do, although we do not believe that any single competitor or group of competitors in any of the primary markets where our properties are located are dominant in that market.

We face significant competition in our efforts to lease available space to prospective tenants at our operating, development and redevelopment properties. The nature of the competition for tenants varies based on the characteristics of each local market in which we own properties. We believe that the principal competitive factors in attracting tenants in our market areas are location, demographics, rental rates, the presence of anchor stores, competitor shopping centers in the same geographic area and the maintenance, appearance, access and traffic patterns of our properties. There can be no assurance in the future that we will be able to compete successfully with our competitors in our development, acquisition and leasing activities.

Government Regulation

We and our properties are subject to a variety of federal, state, and local environmental, health, safety and similar laws, including:

Americans with Disabilities Act. Our properties must comply with Title III of the Americans with Disabilities Act (the "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 the imposition of fines or an award of damages to private litigants. The obligation to make readily accessible accommodations is an ongoing one, and we will continue to assess our properties and make alterations as appropriate in this respect.

Affordable Care Act. Effective January 2015, we may be subject to excise taxes under the employer mandate provisions of the Affordable Care Act ("ACA") if we (i) do not offer health care coverage to substantially all of our full-time employees and their dependents or (ii) do not offer health care coverage that meets the ACA's affordability and minimum value standards. The excise tax is based on the number of full-time employees. We do not anticipate being subject to a penalty under the ACA; however, even in the event that we are, any such penalty would be less than \$0.3 million, as we had 147 full-time employees as of December 31, 2017.

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 petroleum products or other hazardous or toxic substances. These storage tanks 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. In general, these tenants have covenanted in their leases with us 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.

Neither existing environmental, health, safety and similar laws nor the costs of our compliance with these laws has had a material adverse effect on our financial condition or results operations, and management does not believe they will in the future. In addition, we have not incurred, and do not expect to incur, any material costs or liabilities due to environmental contamination at properties we currently own or have owned in the past. However, we cannot predict the impact of new or changed laws or regulations on properties we currently own or may acquire in the future.

With environmental sustainability becoming a national priority, we have continued to demonstrate our strong commitment to be a responsible corporate citizen through resource reduction and employee training that have resulted in reductions of energy consumption, waste and improved maintenance cycles.

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. Certain risks such as loss from riots, war or acts of God, and, in some cases, flooding are not insurable; and therefore, we do not carry insurance for these losses. 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

As of December 31, 2017, we had 147 full-time employees. The majority of these employees were based at our Indianapolis, Indiana headquarters.

Segment Reporting

Our primary business is the ownership and operation of neighborhood and community shopping centers. We do not distinguish or group our operations on a geographical basis, or any other basis, when measuring performance. Accordingly, we have one operating segment, which also serves as our reportable segment for disclosure purposes in accordance with accounting principles generally accepted in the United States ("GAAP").

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 from us in print and free of charge to any shareholder upon request. Any person wishing to obtain such copies in print should contact 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
- risks related to tax matters.

RISKS RELATED TO OUR OPERATIONS

Ongoing challenging conditions in the United States and global economies and the challenges facing our retail tenants and non-owned anchor tenants may have a material adverse effect on our financial condition and results of operations.

Certain sectors of the United States economy are experiencing sustained weakness. Over the past several years, this structural weakness has resulted in the bankruptcy or weakened financial condition of a number of retailers, decreased consumer spending, increased home foreclosures, low consumer confidence, and reduced demand and rental rates for certain retail space. General economic factors that are beyond our control, including, but not limited to, economic recessions, decreases in consumer confidence and spending, decreases in business confidence and business spending, reductions in consumer credit availability, increasing consumer debt levels, rising energy costs, higher tax rates or other changes in taxation, rising interest rates, business layoffs, downsizing and industry slowdowns, unemployment and/or rising or falling inflation, could have a negative impact on the business of our retail tenants. In turn, this could have a material adverse effect on our business because current or prospective tenants may, among other things, (i) have difficulty paying their rent obligations as they struggle to sell goods and services to consumers, (ii) be unwilling to enter into or renew leases with us on favorable terms or at all, (iii) seek to terminate their existing leases with us or request rent concessions on such leases, or (iv) be forced to curtail operations or declare bankruptcy. We are also susceptible to other developments and conditions that could have a material adverse effect on our business. These developments and conditions include relocations of businesses, changing demographics (including the number of households and average household income surrounding our properties), increasing consumer shopping via the internet (or e-commerce), other changes in retailers' and consumers' preferences and behaviors, infrastructure quality, federal, state, and local budgetary constraints and priorities, increases in real estate and other taxes, increased government regulation and the related compliance cost, decreasing valuations of real estate, and other factors.

Further, we continually monitor events and changes in circumstances that could indicate that the carrying value of our real estate assets may not be recoverable. Challenging market conditions could require us to recognize impairment charges with respect to one or more of our properties, or a loss on the disposition of one or more of our properties.

The expansion of e-commerce may impact our tenants and our business

E-commerce continues to gain in popularity and its growth is likely to continue in the future. E-commerce could result in a downturn in the businesses of some of our tenants and affect the way current and prospective tenants lease space or operate their businesses, including by reducing the size or number of their retail locations in the future. We cannot predict with certainty how the growth in e-commerce will impact the demand for space at our properties or the revenue generated at our properties in the future. Although we continue to respond to these trends, including by entering into or renewing leases with tenants whose businesses are perceived as relatively resistant to e-commerce (such as services, restaurant, grocery, specialty and other experiential retailers), the risks associated with e-commerce could have an adverse effect on our cash flow and operating results.

If our tenants are unable to secure financing necessary to continue to operate and grow their businesses and pay us rent, we could be materially and adversely affected.

Many of our tenants rely on external sources of financing to operate and grow their businesses. Disruptions in credit markets may adversely affect our tenants' ability to obtain debt financing at favorable rates or at all. If our tenants are unable to secure financing necessary to continue to operate or expand their businesses, they may be unable to meet their rent obligations to us or enter into new leases with us or be forced to declare bankruptcy and reject our leases with them, which could materially and adversely affect us.

Our business is significantly influenced by demand for retail space generally, a decrease in which may have a greater adverse effect on our business than if we owned a more diversified real estate portfolio.

Because our portfolio of properties consists primarily of community and neighborhood shopping centers, a decrease in the demand for retail space, due to the economic factors discussed above or otherwise, may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate property portfolio. The market for retail space has been, and could be in the future, 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 e-commerce and the perception such online retail has on the value of shopping center assets. To the extent that any of these conditions occur, they are likely to negatively affect market rents for retail space and could materially and adversely affect our financial condition, results of operations, cash flow, common share trading price, and ability to satisfy our debt service obligations and to pay distributions to our shareholders.

The closure of any stores by any non-owned anchor tenant or major tenant with leases in multiple locations, because of a deterioration of its financial condition or otherwise, could have a material adverse effect on our results of operations.

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, particularly during periods of economic or political uncertainty. Economic and political uncertainty, including uncertainty related to taxation, may affect our tenants, joint venture partners, lenders, financial institutions and general economic conditions, such as consumer confidence and spending, business confidence and spending and the volatility of the stock market. In the event of a prolonged or severe economic downturn, 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. Lease terminations or failure of a 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 because of contractual co-tenancy termination or rent reduction rights 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. In some cases, it may take significant time to re-lease a space, particularly space once occupied by a major tenant or non-owned anchor. Additionally, in the event our tenants are involved in mergers or acquisitions with or by third parties or undertake other restructurings, such tenants may choose to terminate their leases, vacate the leased premises or not renew their leases if they consolidate, downsize or relocate their operations as a result of the transaction. 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 have a material adverse effect on our results of operations.

We face potential material adverse effects from tenant bankruptcies, and we may be unable to collect balances due from such tenants, replace the tenant at current rates, or at all.

Tenant bankruptcies may increase during periods of difficult economic conditions. We cannot make any assurances that a tenant that files for bankruptcy protection will continue to pay its rent obligations. A bankruptcy filing by one of our tenants or a lease guarantor would legally prohibit us from collecting pre-bankruptcy debts from that tenant or the lease guarantor, unless we receive an order from the bankruptcy court permitting us to do so. Such bankruptcies could delay or ultimately preclude collection of amounts owed to us. A tenant in bankruptcy may attempt to renegotiate the lease or request significant rent concessions. 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, including pre-bankruptcy balances. 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 would recover substantially less than the full value of any unsecured claims we hold from a tenant in bankruptcy, which would result in a reduction in our cash flow and in the amount of cash available for distribution to our shareholders.

Moreover, we are continually re-leasing vacant spaces resulting from tenant lease terminations. The bankruptcy of a tenant, particularly an anchor tenant, may make it more difficult to lease the remainder of the affected properties. Future tenant bankruptcies could materially adversely affect our properties or impact our ability to successfully execute our re-leasing strategy.

Our performance and value are subject to risks associated with real estate assets and the real estate industry.

Our ability to make expected distributions to our shareholders depends on our being able to generate substantial revenues from our properties. Periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. Such events would materially and adversely affect our financial condition, results of operations, cash flow, per share trading price of our common shares, ability to satisfy debt service obligations, and ability to make distributions to shareholders.

In addition, other events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution and the value of our properties. These events include but are not limited to:

- adverse changes in the national, regional and local economic climate, particularly in Florida, Indiana and Texas where 25%, 14% and 12%, respectively, of our total annualized base rent is located;
- tenant bankruptcies;
- local oversupply of rental space, increased competition or reduction in demand for rentable space;
- inability to collect rent from tenants or having to provide significant rent concessions to tenants;
- vacancies or our inability to rent space on favorable terms;
- downward trends in market rental rates;
- inability to finance property development, tenant improvements and acquisitions on favorable terms;
- increased operating costs, including costs incurred for maintenance, insurance premiums, utilities and real estate taxes and a decrease in our ability to recover such increased costs from our tenants;
- the need to periodically fund the costs to repair, renovate and re-lease spaces in our operating properties;
- decreased attractiveness of our properties to tenants;
- weather conditions that may increase energy costs and other weather-related expenses, such as snow removal costs;
- changes in laws and governmental regulations and costs of complying with such changed laws and governmental regulations, including those involving health, safety, usage, zoning, the environment and taxes;
- civil unrest, acts of terrorism, earthquakes, hurricanes and other national disasters or acts of God that may result in underinsured or uninsured losses;
- the relative illiquidity of real estate investments;
- changing demographics (including the number of households and average household income surrounding our properties); and
- changing customer traffic patterns.

We face significant competition, which may impede our ability to renew leases or re-lease space as leases expire or require us to undertake unexpected capital improvements.

We compete with numerous developers, owners and operators of retail shopping centers, regional malls, and outlet malls for tenants. These competitors include institutional investors, other REITs and other owner-operators of community and neighborhood shopping centers, some of which own or may in the future own properties similar to ours in the same markets as ours but which have greater capital resources. As of December 31, 2017, leases representing 7.1% of our total annualized base rent were scheduled to expire in 2018. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may be unable to lease on satisfactory terms and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our leases with them expire. We also may be required to offer more substantial rent abatements, tenant improvements and early termination rights or accommodate requests for renovations, build-to-suit remodeling and other improvements than we have historically. As a result, our financial condition, results of operations, cash flow, trading price of our common shares and ability to satisfy our debt service obligations and to pay distributions to our shareholders may be materially adversely affected. In addition, increased competition for tenants may require us to make capital improvements to properties that we would not have otherwise planned to make, which would reduce cash available for distributions to shareholders. If retailers or consumers perceive that shopping at other venues, online or by phone is more convenient, cost-effective or otherwise more attractive, our revenues and profitability also may suffer.

Because of our geographic concentration in Florida, Indiana and Texas, a prolonged economic downturn in these states could materially and adversely affect our financial condition and results of operations.

The specific markets in which we operate may face challenging economic conditions that could persist into the future. In particular, as of December 31, 2017, rents from our owned square footage in the states of Florida, Indiana and Texas comprised 25%, 14%, and 12% of our annualized base rent, respectively. This level of concentration could expose us to greater economic risks than if we owned properties in numerous geographic regions. Adverse economic or real estate trends in Florida, Indiana, Texas, or the surrounding regions, or any decrease in demand for retail space resulting from the local regulatory environment, business climate or fiscal problems in these states, could materially and 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.

Disruptions in the financial markets could affect our ability to obtain financing on reasonable terms, or at all, and have other material adverse effects on our business.

Disruptions in the financial markets generally, or relating to the real estate industry specifically, may adversely affect our ability to obtain debt financing on favorable terms or at all. These disruptions could impact the overall amount of equity and debt financing available, lower loan to value ratios, cause a tightening of lender underwriting standards and terms and cause higher interest rate spreads. As a result, we may be unable to refinance or extend our existing indebtedness or the terms of any refinancing may not be as favorable as the terms of our existing indebtedness. We have approximately \$82.4 million of debt maturities through December 31, 2020, with other significant debt obligations maturing after 2020. If we are not successful in refinancing our outstanding debt when it becomes due, we may have to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. We currently have sufficient capacity under our unsecured revolving credit facility and operating cash flows to retire outstanding debt maturing through 2020 in the event we are not able to refinance such debt when it becomes due, but we cannot provide any assurance that we will be able to maintain capacity to retire any or all of our outstanding debt beyond 2020.

If economic conditions deteriorate in any of our markets, we may have to seek less attractive, alternative sources of financing and adjust our business plan accordingly. These factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing. These events also may make it difficult or costly to raise capital through the issuance of our common shares or preferred shares. The disruptions in the financial markets have had, and may continue to have, a material adverse effect on the market value of our common shares and other aspects of our business, as well as the economy in general. Furthermore, there can be no assurances that government responses to disruptions in the financial markets will restore consumer confidence, stabilize the markets or increase liquidity and the availability of equity or debt financing.

Our real estate assets may be subject to impairment charges, which may negatively affect our net income.

Our long-lived assets, primarily real estate held for investment, are carried at cost unless circumstances indicate that the carrying value of the assets may not be recoverable through future operations. On at least a quarterly basis, we evaluate whether there are any indicators, including poor operating performance or deteriorating general market conditions, that the value of our real estate properties (including any related amortizable intangible assets or liabilities) may not be recoverable. As part of this evaluation, we compare the current carrying value of the asset to the estimated undiscounted cash flows that are directly associated with the use and ultimate disposition of the asset. Our estimated cash flows are based on several key assumptions, including current and projected rental rates, costs of tenant improvements, leasing commissions, anticipated hold periods, and assumptions regarding the residual value upon disposition, including the exit capitalization rate. These key assumptions are subjective in nature and could differ materially from actual results. Changes in our disposition strategy or changes in the marketplace may alter the hold period of an asset or asset group, which may result in an impairment loss, and such loss could be material to our financial condition or operating performance. To the extent that the carrying value of the asset exceeds the estimated undiscounted cash flows, an impairment loss is recognized equal to the excess of carrying value over estimated fair value. If such negative indicators, as described above, are not identified, management will not assess the recoverability of a property's carrying value.

The estimation of the fair value of real estate assets is highly subjective and is typically determined through comparable sales information and other market data if available or through use of an income approach such as the direct capitalization method or the traditional discounted cash flow approach. Such cash flow projections consider factors, including expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors, and therefore are subject to a significant degree of management judgment. Changes in those factors could impact the determination of fair value. In estimating the fair value of undeveloped land, we generally use market data and comparable sales information.

These subjective assessments have a direct impact on our net income because recording an impairment charge results in an immediate negative adjustment to net income. There can be no assurance that we will not take additional charges in the future related to the impairment of our assets. Any future impairment could have a material adverse effect on our results of operations in the period in which the charge is taken.

We had \$1.7 billion of consolidated indebtedness outstanding as of December 31, 2017, which may have a material adverse effect on our financial condition and results of operations and reduce our ability to incur additional indebtedness to fund our growth.

Required repayments of debt and related interest, along with any applicable prepayment premium, may materially adversely affect our operating performance. We had \$1.7 billion of consolidated outstanding indebtedness as of December 31, 2017. At December 31, 2017, \$573.7 million of our debt bore interest at variable rates (\$138.2 million when reduced by our \$435.5 million of fixed interest rate swaps). Interest rates are currently low relative to historical levels and may increase significantly in the future. If our interest expense increased significantly, it could materially adversely affect our results of operations. For example, if market rates of interest on our variable rate debt outstanding, net of cash flow hedges, as of December 31, 2017 increased by 1%, the increase in interest expense on our unhedged variable rate debt would decrease future cash flows by approximately \$1.4 million annually.

We may incur additional debt in connection with various development and redevelopment projects and may incur additional debt upon the future acquisition of operating 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 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" (determined before the deduction of dividends paid and excluding net capital gains) 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 could materially and adversely affect our business in other ways, including by, among other things:

- requiring us to use a substantial portion of our funds from operations to pay principal and 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 development and acquisitions in the future.

Agreements with lenders supporting our unsecured revolving credit facility and various other loan agreements contain default provisions which, among other things, could result in the acceleration of principal and interest payments or the termination of the facilities.

Our unsecured revolving credit facility and various other debt agreements contain certain Events of Default which include, but are not limited to, failure to make principal or interest payments when due, failure to perform or observe any term, covenant or condition contained in the agreements, failure to maintain certain financial and operating ratios and other criteria, misrepresentations, acceleration of other material indebtedness and bankruptcy proceedings. In the event of a default under any of these agreements, the lender would have various rights including, but not limited to, the ability to require the acceleration of the payment of all principal and interest due and/or to terminate the agreements and, to the extent such debt is secured, to foreclose on the properties. The declaration of a default and/or the acceleration of the amount due under any such credit agreement could have a material adverse effect on our business, limit our ability to make distributions to our shareholders, and prevent us from obtaining additional funds needed to address cash shortfalls or pursue growth opportunities.

Certain of our loan agreements contain cross-default provisions which provide that a violation by the Company of any financial covenant set forth in our unsecured revolving credit facility agreement will constitute an event of default under such loans. The agreements relating to our unsecured revolving credit facility, unsecured term loan and seven-year unsecured term loan contain provisions providing that any “Event of Default” under one of these facilities or loans will constitute an “Event of Default” under the other facility or loan. In addition, these agreements relating to our unsecured revolving credit facility, unsecured term loan and seven-year unsecured term loan, as well as the agreement relating to our senior unsecured notes, include a provision providing that any payment default under an agreement relating to any material indebtedness will constitute an “Event of Default” thereunder. These provisions could allow the lending institutions to accelerate the amount due under the loans. If payment is accelerated, our assets may not be sufficient to repay such debt in full, and, as a result, such an event may have a material adverse effect on our cash flow, financial condition and results of operations. We were in compliance with all applicable covenants under the agreements relating to our unsecured revolving credit facility, unsecured term loan and seven-year unsecured term loan and senior unsecured notes as of December 31, 2017, although there can be no assurance that we will continue to remain in compliance in the future.

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.

A significant amount of our indebtedness is 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 make the required periodic mortgage payments, the lender or the holder of the mortgage could foreclose on the property, resulting in the loss of our investment. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"). If any of our properties are foreclosed on due to a default, our ability to pay cash distributions to our shareholders and our earnings will

be limited. In addition, as a result of cross-collateralization or cross-default provisions contained in certain of our mortgage loans, a default under one mortgage loan could result in a default on other indebtedness and cause us to lose other better performing properties, which could materially and adversely affect our financial condition and results of operations.

We are subject to risks associated with hedging agreements.

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 the 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 effect on our results of operations or financial condition. Further, should we choose to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our initial obligation under such agreement.

Our financial covenants may restrict our operating and acquisition activities.

Our unsecured 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, certain of our mortgages contain customary 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. 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.

Our current and any 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, 2017, we owned nine of our operating properties through consolidated joint ventures and interests in two properties through unconsolidated joint ventures. As of December 31, 2017, the nine properties represented 13.4% of the annualized base rent of the portfolio. In addition, we currently own land held for development through one consolidated joint venture. Our joint ventures may 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 certain 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, such as by delaying the implementation of important decisions until the conflict or dispute is resolved; and

- we may suffer losses as a result of the actions of our joint venture partners with respect to our joint venture investments, and the activities of a joint venture could adversely affect our ability to qualify as a REIT, even though we may not control the joint venture.

In the future, we may seek to co-invest with third parties through joint ventures that may involve similar or additional risks.

Our future developments, redevelopments and acquisitions may not yield the returns we expect or may result in dilution in shareholder value.

As of December 31, 2017, we have two development projects and 11 3-R projects under construction or in the development planning stage including de-leasing space, evaluating development plans and costs with potential tenants and in some cases modified uses such as apartments. New development and redevelopment projects and property acquisitions are subject to a number of risks, including, but not limited to:

- abandonment of development and redevelopment activities after expending resources to determine feasibility;
- construction delays or cost overruns that may increase project costs;
- the failure of our pre-acquisition investigation of a property or building, and any related representations we may receive from the seller, 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;
- as a result of competition for attractive development and acquisition opportunities, we may be unable to acquire assets as we desire or the purchase price may be significantly elevated, which may impede our growth;
- the failure to meet anticipated occupancy or rent levels within the projected time frame, if at all;
- inability to operate successfully in new markets where new properties are located;
- inability to successfully integrate new properties into existing operations;
- exposure to fluctuations in the general economy due to the significant time lag between commencement and completion of development and redevelopment projects;
- failure to receive required zoning, occupancy, land use and other governmental permits and authorizations and changes in applicable zoning and land use laws; and
- difficulty or inability to obtain any required consents of third parties, such as tenants, mortgage lenders and joint venture partners.

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

We may not be successful in acquiring desirable operating properties, for which we face significant competition, or identifying development and redevelopment projects that meet our investment criteria, both of which may impede our growth.

Part of our business strategy is expansion through property acquisitions and development and redevelopment projects, which requires us to identify suitable opportunities that meet our criteria and are compatible with our growth and profitability strategies. We continue to evaluate the market and may acquire properties when we believe strategic opportunities exist. However, we may be unable to acquire a desired property because of competition from other real estate investors with substantial capital, including other REITs and institutional investment funds. Even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price, reducing the return to our shareholders. Additionally, we may not be successful in identifying suitable real estate properties or other assets that meet our development or redevelopment criteria, or we may fail to complete developments, redevelopments, acquisitions or investments on satisfactory terms. Failure to identify or complete developments, redevelopments or acquisitions could slow our growth, which could in turn materially adversely affect our operations.

Development and redevelopment activities may be delayed or may not perform as expected and, in the case of an unsuccessful project, our entire investment could be at risk for loss.

We currently have two development projects and seven 3-R projects under construction. We have also identified four additional 3-R opportunities at our operating properties and expect to commence redevelopment in the future. In connection with any development or redevelopment of our properties, we will bear certain risks, including the risk of construction delays or cost overruns that may increase project costs and make a project uneconomical, the risk that occupancy or rental rates at a completed project will not be sufficient to enable us to pay operating expenses or earn the targeted rate of return on investment, and the risk of incurrence of predevelopment costs in connection with projects that are not pursued to completion. In addition, various tenants may have the right to withdraw from a property if a development or redevelopment project is not completed on schedule and required third-party consents may be withheld. In the case of an unsuccessful redevelopment project, our entire investment could be at risk for loss, or an impairment charge could occur.

We may not be able to sell properties when appropriate or on terms favorable to us and could, under certain circumstances, be required to pay a 100% "prohibited transaction" penalty tax related to the properties we sell.

Real estate property investments generally cannot be sold quickly. Our ability to dispose of properties on advantageous terms depends on factors beyond our control, including competition from other sellers and the availability of attractive financing for potential buyers of our properties, and we cannot predict the various market conditions affecting real estate investments that will exist at any particular time in the future. Before a property can be sold, we may need to make expenditures to correct defects or to make improvements. We may not have funds available to correct such defects or to make such improvements, and if we cannot do so, we might not be able to sell the property or might be required to sell the property on unfavorable terms. Furthermore, in acquiring a property, we might agree to provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as limitations on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could adversely affect our financial condition and results of operations.

Also, the tax laws applicable to REITs impose a 100% penalty tax on any net income from "prohibited transactions." In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell. Therefore, we may be unable to adjust our portfolio mix promptly in response to market conditions, which may adversely affect our financial position. In addition, we will be subject to income taxes on gains from the sale of any properties owned by any taxable REIT subsidiary.

Uninsured losses or losses in excess of insurance coverage could materially and adversely affect our cash flow, financial condition and results of operations.

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 all losses. In addition, tenants generally are required to indemnify and hold us harmless from liabilities resulting from injury to persons or damage to personal or real property, on the premises, due to activities conducted by tenants or their agents on the properties (including without limitation any environmental contamination) and, at the tenant's expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. However, tenants may not properly maintain their insurance policies or have the ability to pay the deductibles associated with such policies. If we experience a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

Insurance coverage on our properties may be expensive or difficult to obtain, exposing us to potential risk of loss.

In the future, we may be unable to renew or duplicate our current insurance coverage at adequate levels or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts, environmental liabilities, or other catastrophic events including hurricanes and floods, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property after a covered period of time, but still remain obligated for any mortgage debt or other financial obligations related to the property. We cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Events such as these could adversely affect our results of operations and our ability to meet our obligations.

Rising operating expenses could reduce our cash flow and funds available for future distributions, particularly if such expenses are not offset by an increase in corresponding revenues.

Our existing properties and any properties we develop or acquire in the future are and will continue to be subject to operating risks common to real estate in general, any or all of which may negatively affect us. The expenses of owning and operating properties generally do not decrease, and may increase, when circumstances such as market factors and competition cause a reduction in income from the properties. Our properties continue to be subject to increases in real estate and other tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, regardless of such properties' occupancy rates. As a result, if any property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, we could be required to expend funds for that property's operating expenses. Therefore, rising operating expenses could reduce our cash flow and funds available for future distributions, particularly if such expenses are not offset by corresponding revenues.

Our business faces potential risks associated with natural disasters, severe weather conditions and climate change, which could have an adverse effect on our cash flow and operating results.

Changing weather patterns and climatic conditions may affect the predictability and frequency of natural disasters in some parts of the world and create additional uncertainty as to future trends and exposures. Our properties are located in many areas that are subject to or have been affected by natural disasters and severe weather conditions such as hurricanes, tropical storms, tornadoes, earthquakes, droughts, floods and fires. Over time, the occurrence of natural disasters, severe weather conditions and

changing climatic conditions can delay new development and redevelopment projects, increase repair costs and future insurance costs and negatively impact the demand for lease space in the affected areas, or in extreme cases, affect our ability to operate the properties at all. These risks could have an adverse effect on our cash flow and operating results.

We could incur significant costs related to environmental matters.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at a property and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with contamination. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral. In connection with the ownership, operation and management of real properties, we are potentially liable for removal or remediation costs, as well as certain other related costs, including governmental fines and injuries to persons and property. We may also be liable to third parties for damage and injuries resulting from environmental contamination emanating from the real estate. Environmental laws also may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which that property may be used or how businesses may be operated on that property.

Some of the 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 petroleum products or other hazardous or toxic substances. These tanks may have released, or have the potential to release, such substances into the environment. In addition, some of our properties have tenants that may use hazardous or toxic substances in the routine course of their businesses. In general, these tenants have covenanted in their leases with us to use these substances, if any, in compliance with all environmental laws and have agreed to indemnify us for any damages that 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 may impose fines and penalties 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.

Our efforts to identify environmental liabilities may not be successful.

We test our properties for compliance with applicable environmental laws on a limited basis. We cannot give assurance that:

- existing environmental studies with respect to our properties reveal all potential environmental liabilities;
- any previous owner, occupant or tenant of one of our properties did not create any material environmental condition not known to us;
- the current environmental condition of our properties will not be affected by tenants and occupants, by the condition of nearby properties, or by other unrelated third parties; or
- future uses or conditions (including, without limitation, changes in applicable environmental laws and regulations or the interpretation thereof) will not result in environmental liabilities.

Compliance with the Americans with Disabilities Act and fire, safety and other regulations may require us to make expenditures that adversely affect our cash flows.

Our properties must comply with Title III of the 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. Noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants and the incurrence of additional costs associated with bringing the properties into compliance. Although we believe the properties in our portfolio substantially comply with present requirements of the ADA, we have not conducted an audit or investigation of all of our properties to determine our compliance. While the tenants to whom our properties are leased are obligated by law to comply with the ADA provisions, and typically under tenant leases are obligated to cover costs associated with compliance, if required changes involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, the ability of these tenants to cover costs could be adversely affected. As a result, we could be required to expend funds to comply with the provisions of the ADA, which could adversely affect our results of operations and financial condition. In addition, we are required to operate the properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to the properties. We may be required to make substantial capital expenditures to comply with, and we may be restricted in our ability to renovate the properties subject to, those requirements. The resulting expenditures and restrictions could have a material adverse effect on our ability to meet our financial obligations.

Inflation may adversely affect our financial condition and results of operations.

Most of our leases contain provisions requiring the tenant to pay a share of operating expenses, including common area maintenance, real estate taxes and insurance. However, increased inflation could have a more pronounced negative impact on our mortgage and debt interest and general and administrative expenses, as these costs could increase at a rate higher than our rents. Also, inflation may adversely affect tenant leases with stated rent increases or limits on such tenant's obligation to pay its share of operating expenses, which could be lower than the increase in inflation at any given time. It may also limit our ability to recover all of our operating expenses. Inflation could also have an adverse effect on consumer spending, which could impact our tenants' sales and, in turn, our average rents, and in some cases, our percentage rents, where applicable. In addition, renewals of leases or future leases may not be negotiated on current terms, in which event we may recover a smaller percentage of our operating expenses.

Rising interest rates could increase our borrowing costs, thereby adversely affecting our cash flows and the amounts available for distributions to our shareholders, as well as decrease our share price, if investors seek higher yields through other investments.

An environment of rising interest rates could lead investors to seek higher yields through other investments, which could adversely affect the market price of our common shares. One of the factors that may influence the price of our common shares in public markets is the annual distribution rate we pay as compared with the yields on alternative investments. Several other factors, such as governmental regulatory action and tax laws, could have a significant impact on the future market price of our common shares. In addition, increases in market interest rates could result in increased borrowing costs for us, which may adversely affect our cash flow and the amounts available for distributions to our shareholders.

We and our tenants face risks relating to cybersecurity attacks that could cause loss of confidential information and other business disruptions.

We rely extensively on computer systems to process transactions and manage our business, and our business is at risk from and may be impacted by cybersecurity attacks. These could include attempts to gain unauthorized access to our data and computer systems. Attacks can be both individual and/or highly organized attempts by very sophisticated hacking organizations. A cybersecurity attack could compromise the confidential information of our employees, tenants, and vendors. Additionally, we rely on a number of service providers and vendors, and cybersecurity risks at these service providers and vendors create additional risks for our information and business. A successful attack could lead to identity theft, fraud or other disruptions to our business operations, any of which may negatively affect our results of operations.

We employ a number of measures to prevent, detect and mitigate these threats. These prevention measures include password protection, frequent password change events, firewall detection systems, frequent backups, a redundant data system for core applications and penetration testing. We conduct periodic assessments of (i) the nature, sensitivity and location of

information that we collect, process and store and the technology systems we use; (ii) internal and external cybersecurity threats to and vulnerabilities of our information and technology systems; (iii) security controls and processes currently in place; (iv) the impact should our technology systems become compromised; and (v) the effectiveness of our management of cybersecurity risk. The results of these assessments are used to create and implement a strategy designed to prevent, detect and respond to cybersecurity threats. However, there is no guarantee such efforts will be successful in preventing a cyber-attack.

RISKS RELATED TO OUR ORGANIZATION AND STRUCTURE

Our organizational documents contain provisions that generally would prohibit any person (other than members of the Kite family who, as a group, are currently allowed to own up to 21.5% of our outstanding common shares) from beneficially owning more than 7% of our outstanding common shares (or up to 9.8% in the case of certain designated investment entities, as defined in our declaration of trust), which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our shares or otherwise benefit our shareholders.

Our organizational documents contain provisions that may have an anti-takeover effect and inhibit a change in our management.

(1) *There are ownership limits and restrictions on transferability in our declaration of trust.* In order for us to qualify as a REIT, no more than 50% of the value of our outstanding shares may be owned, actually or constructively, by five or fewer individuals at any time during the last half of each taxable year. To make sure that we will not fail to satisfy this requirement and for anti-takeover reasons, our declaration of trust generally prohibits any shareholder (other than an excepted holder or certain designated investment entities, as defined in our declaration of trust) from owning (actually, constructively or by attribution), more than 7% of the value or number of our outstanding common shares. Our declaration of trust provides an excepted holder limit that allows members of the Kite family (Al Kite, John Kite and Paul Kite, their family members and certain entities controlled by one or more of the Kites), as a group, to own more than 7% of our outstanding common shares, so long as, under the applicable tax attribution rules, no one excepted holder treated as an individual would hold more than 21.5% of our common shares, no two excepted holders treated as individuals would own more than 28.5% of our common shares, no three excepted holders treated as individuals would own more than 35.5% of our common shares, no four excepted holders treated as individuals would own more than 42.5% of our common shares, and no five excepted holders treated as individuals would own more than 49.5% of our common shares. Currently, one of the excepted holders would be attributed all of the common shares owned by each other excepted holder and, accordingly, the excepted holders as a group would not be allowed to own in excess of 21.5% of our common shares. If at a later time, there were not one excepted holder that would be attributed all of the shares owned by the excepted holders as a group, the excepted holder limit would not permit each excepted holder to own 21.5% of our common shares. Rather, the excepted holder limit would prevent two or more excepted holders who are treated as individuals under the applicable tax attribution rules from owning a higher percentage of our common shares than the maximum amount of common shares that could be owned by any one excepted holder (21.5%), plus the maximum amount of common shares that could be owned by any one or more other individual common shareholders who are not excepted holders (7%). Certain entities that are defined as designated investment entities in our declaration of trust, which generally include pension funds, mutual funds, and certain investment management companies, are permitted to own up to 9.8% of our outstanding common shares, so long as each beneficial owner of the shares owned by such designated investment entity would satisfy the 7% ownership limit if those beneficial owners owned directly their proportionate share of the common shares owned by the designated investment entity. Our Board of Trustees may waive, and has waived in the past, the 7% ownership limit or the 9.8% designated investment entity limit for a shareholder that is not an individual if such shareholder provides information and makes representations that are satisfactory to the Board of Trustees, in its reasonable discretion, to establish that such person's ownership in excess of the 7% limit or the 9.8% limit, as applicable, would not jeopardize our qualification as a REIT. In addition, our declaration of trust contains certain other ownership restrictions intended to prevent us from earning income from related parties if such income would cause us to fail to comply with the REIT gross income requirements. The various ownership restrictions may:

- discourage a tender offer or other transactions or a change in management or control that might involve a premium price for our shares or otherwise be in the best interests of our shareholders; or

- compel a shareholder who has acquired our shares in excess of these ownership limitations to dispose of the additional shares and, as a result, to forfeit the benefits of owning the additional shares. Any acquisition of our common shares in violation of these ownership restrictions will be void *ab initio* and will result in automatic transfers of our common shares to a charitable trust, which will be responsible for selling the common shares to permitted transferees and distributing at least a portion of the proceeds to the prohibited transferees.

(2) *Our declaration of trust permits our Board of Trustees to issue preferred shares with terms that may discourage a third party from acquiring us.* Our declaration of trust permits our Board of Trustees to issue up to 40,000,000 preferred shares, having those preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications, or terms or conditions of redemption as determined by our Board of Trustees. Thus, our Board of Trustees could authorize the issuance of additional preferred shares with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price of our shares. In addition, any preferred shares that we issue likely would rank senior to our common shares with respect to payment of distributions, in which case we could not pay any distributions on our common shares until full distributions were paid with respect to such preferred shares.

(3) *Our declaration of trust and bylaws contain other possible anti-takeover provisions.* Our declaration of trust and bylaws contain other provisions that may have the effect of delaying, deferring or preventing a change in control of our company or the removal of existing management and, as a result, could prevent our shareholders from being paid a premium for their common shares over the then-prevailing market prices. These provisions include advance notice requirements for shareholder proposals and our Board of Trustees' power to reclassify shares and issue additional common shares or preferred shares and the absence of cumulative voting rights. Furthermore, our Board of Trustees has the sole power to amend our bylaws and may amend our bylaws in a way that may have the effect of delaying, deferring or preventing a change in control of our company or the removal of existing management or may otherwise be detrimental to your interests.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “business combination moratorium/fair price” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested shareholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes stringent fair price and super-majority shareholder voting requirements on these combinations; and
- “control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares” from a party other than the issuer) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two thirds of all the votes entitled to be cast on the matter, excluding all interested shares, and are subject to redemption in certain circumstances.

We have opted out of these provisions of Maryland law. However, our Board of Trustees may opt to make these provisions applicable to us at any time.

A substantial number of common shares eligible for future issuance or sale could cause our common share price to decline significantly and may be dilutive to current shareholders.

Our declaration of trust authorizes our Board of Trustees to, among other things, issue additional common shares without shareholder approval. The issuance of substantial numbers of our common shares in the public market or the perception that such issuances might occur could adversely affect the per share trading price of our common shares. In addition, any such issuance could dilute our existing shareholders' interests in our company. Furthermore, if our shareholders sell, or the market perceives that our shareholders intend to sell, substantial amounts of our common shares in the public market, the market price of our common shares could decline significantly. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. As of December 31, 2017, we had outstanding 83,606,068 common shares, and substantially all of these shares are freely tradable. In addition, 1,974,830 units of our Operating Partnership were owned by our executive officers and other individuals as of December 31, 2017, and are redeemable by the holder for cash or, at our election, common shares. Pursuant to registration rights of certain of our executive officers and other individuals, we filed a registration statement with the SEC to register common shares issued (or issuable upon redemption of units in our Operating Partnership) in our formation transactions. As units are redeemed for common shares, the market price of our common shares could drop significantly if the holders of such shares sell them or are perceived by the market as intending to sell them.

Certain officers and trustees may have interests that conflict with the interests of shareholders.

Certain of our officers own limited partner units in our Operating Partnership. These individuals may have personal interests that conflict with the interests of our shareholders with respect to business decisions affecting us and our Operating Partnership, such as interests in the timing and pricing of property sales or refinancings in order to obtain favorable tax treatment. As a result, the effect of certain transactions on these unit holders may influence our decisions affecting these properties.

Departure or loss of our key officers could have an adverse effect on us.

Our future success depends, to a significant extent, upon the continued services of our existing executive officers. The experience of our executive officers in the areas of real estate acquisition, development, finance and management is a critical element of our future success. We have entered into employment agreements with certain members of senior management. Each employment agreement automatically renewed for one additional year on July 1, 2017. Each agreement will continue to renew each July 1st thereafter unless we or the individual elects not to renew the agreement. If one or more of our key executive officers were to die, become disabled or otherwise leave our employ, we may not be able to replace this person with an executive of equal skill, ability, and industry expertise within a reasonable timeframe. Until suitable replacements could be identified and hired, our operations and financial condition could be negatively affected.

We depend on external capital to fund our capital needs.

To qualify as a REIT, we are required to distribute to our shareholders each year at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains). In order to eliminate federal income tax, we are required to distribute annually 100% of our net taxable income, including capital gains. Partly because of these distribution requirements, we may not be able to fund all future capital needs, including capital for property development, redevelopment and acquisitions, with income from operations. We therefore will have to rely on third-party sources of capital, which may or may not be available on favorable terms, if at all. Any additional debt we incur will increase our leverage, expose us to the risk of default and may impose operating restrictions on us, and any additional equity we raise could be dilutive to existing shareholders. Our access to third-party sources of capital depends on a number of things, including:

- general market conditions;
- the market's perception of our growth potential;
- our current debt levels;
- our current and potential future earnings;

- our cash flow and cash distributions;
- our ability to qualify as a REIT for federal income tax purposes; and
- the market price of our common shares.

If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, satisfy our principal and interest obligations or make distributions to our shareholders.

Our rights and the rights of our shareholders to take action against our trustees and officers are limited.

Maryland law provides that a director or officer has limited liability in that capacity if he or she performs his or her duties in good faith and in a manner that he or she reasonably believes to be in our best interests and that an ordinarily prudent person in a like position would use under similar circumstances. Our declaration of trust and bylaws require us to indemnify our trustees and officers for actions taken by them in those capacities to the extent permitted by Maryland law.

Our shareholders have limited ability to prevent us from making any changes to our policies that they believe could harm our business, prospects, operating results or share price.

Our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations, will be determined by our management and, in certain cases, approved by our Board of Trustees. These policies may be amended or revised from time to time at the discretion of our Board of Trustees without a vote of our shareholders. This means that our shareholders will have limited control over changes in our policies. Such changes in our policies intended to improve, expand or diversify our business may not have the anticipated effects and consequently may adversely affect our business and prospects, results of operations and share price.

Our common share price could be volatile and could decline, resulting in a substantial or complete loss of our shareholders' investment.

The stock markets (including The New York Stock Exchange (the "NYSE") on which we list our common shares) have experienced significant price and volume fluctuations. The market price of our common shares could be similarly volatile, and investors in our shares may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Among the market conditions that may affect the market price of our publicly traded securities are the following:

- our financial condition and operating performance and the performance of other similar companies;
- actual or anticipated differences in our quarterly operating results;
- changes in our revenues or earnings estimates or recommendations by securities analysts;
- perceived or actual effects of e-commerce competition;
- bankruptcy or negative publicity about one or more of our larger tenants;
- our credit or analyst ratings;
- publication by securities analysts of research reports about us, our industry, or the retail industry;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the reputation of REITs generally and the reputation of REITs with portfolios similar to ours;

- the attractiveness of the securities of REITs in comparison to securities issued by other entities (including securities issued by other real estate companies);
- an increase in market interest rates, which may lead prospective investors to demand a higher distribution rate in relation to the price paid for our shares;
- the passage of legislation or other regulatory developments that adversely affect us or our industry including tax reform;
- speculation in the press or investment community;
- actions by institutional shareholders, hedge funds or other investors;
- increases or decreases in dividends;
- changes in accounting principles;
- terrorist acts; and
- general market conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management’s attention and resources.

Changes in accounting standards may adversely impact our financial results.

The Financial Accounting Standards Board (the “FASB”), in conjunction with the SEC, has issued and may issue key pronouncements that impact how we account for our material transactions, including, but not limited to, lease accounting, business combinations and the recognition of other revenues. We are unable to predict which, if any, proposals may be issued in the future or what level of impact any such proposal could have on the presentation of our consolidated financial statements, our results of operations and the financial ratio required by our debt covenants.

The cash available for distribution to shareholders may not be sufficient to pay distributions at expected levels, nor can we assure you of our ability to make distributions in the future. We may use borrowed funds to make cash distributions and/or may choose to make distributions in part payable in our common shares.

If cash available for distribution generated by our assets decreases in future periods from expected levels, our inability to make expected distributions could result in a decrease in the market price of our common shares. All distributions will be made at the discretion of our Board of Trustees and will depend on our earnings, our financial condition, maintenance of our REIT qualification and other factors as our Board of Trustees may deem relevant from time to time. We may not be able to make distributions in the future. In addition, some of our distributions may include a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder’s adjusted tax basis in their shares. A return of capital is not taxable, but it has the effect of reducing the holder’s adjusted tax basis in its investment. To the extent that distributions exceed the adjusted tax basis of a holder’s shares, they will be treated as gain from the sale or exchange of such shares. If we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. Finally, although we do not currently intend to do so, in order to maintain our REIT qualification, we may make distributions that are in part payable in our common shares. Taxable shareholders receiving such distributions will be required to include the full amount of such distributions as ordinary dividend income to the extent of our current or accumulated earnings and profits and may be required to sell shares received in such distribution or may be required to sell other shares or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a significant number of our shareholders determine to sell common shares in order to pay taxes owed on dividend income, such sale may put downward pressure on the market price of our common shares.

Future offerings of debt securities, which would be senior to our equity securities, may adversely affect the market prices of our common shares.

In the future, we may attempt to increase our capital resources by making offerings of debt securities, including unsecured notes, medium term notes, and senior or subordinated notes. Holders of our debt securities will generally be entitled to receive interest payments, both current and in connection with any liquidation or sale, prior to the holders of our common shares being entitled to receive distributions. Future offerings of debt securities, or the perception that such offerings may occur, may reduce the market prices of our common shares and/or the distributions that we pay with respect to our common shares. Because we may generally issue such debt securities in the future without obtaining the consent of our shareholders, our shareholders will bear the risk of our future offerings reducing the market prices of our equity securities.

If securities or industry analysts do not publish research or reports about our business, or if they downgrade their recommendations regarding our common shares, our share price and trading volume could be negatively affected.

The trading market for our shares is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us downgrade our common shares or publish inaccurate or unfavorable research about our business, our share price may decline. If analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our common share price or trading volume to decline and our shares to be less liquid. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire additional properties or other businesses by using our shares as consideration, which in turn could materially adversely affect our business. In addition, the stock market in general, and the NYSE and REITs in particular, have within the last year experienced significant price and volume fluctuations. These broad market and industry factors may decrease the market price of our shares, regardless of our actual operating performance. For these reasons, among others, the market price of our shares may decline substantially and quickly.

TAX RISKS

Failure of our company to qualify as a REIT would have serious adverse consequences to us and our shareholders.

We believe that we have qualified for taxation as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2004. We intend to continue to meet the requirements for qualification and taxation as a REIT, but we cannot assure shareholders that we will qualify as a REIT. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT, and the statements in this Annual Report on Form 10-K are not binding on the IRS or any court. As a REIT, we generally will not be subject to federal income tax on our income that we distribute currently to our shareholders. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, such as rent, that are itemized in the REIT tax laws. In addition, to qualify as a REIT, we cannot own specified amounts of debt and equity securities of some issuers. We also are required to distribute to our shareholders with respect to each year at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains). The fact that we hold substantially all of our assets through our Operating Partnership and its subsidiaries and joint ventures further complicates the application of the REIT requirements for us. Even a technical or inadvertent mistake could jeopardize our REIT status, and, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that we will continue to qualify as a REIT. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for us to remain qualified as a REIT.

If we fail to qualify as a REIT for federal income tax purposes and are unable to avail ourselves of certain savings provisions set forth in the Code:

- We would be taxed as a non-REIT "C" corporation, which under current laws, among other things, means being able to take a deduction for distributions to shareholders in computing our taxable income or pass through long

term capital gains to individual shareholders at favorable rates and being subject to the federal alternative minimum tax (for taxable years beginning before December 31, 2017) and possibly increased state and local taxes;

- We would not be able to elect to be taxed as a REIT for four years following the year we first failed to qualify. Since we are the successor to Inland Diversified Real Estate Trust, Inc. ("Inland Diversified") for federal income tax purposes as a result of its merger with us (the "Merger"), the rule against re-electing REIT status following a loss of such status also would apply to us if Inland Diversified failed to qualify as a REIT in any of its 2011 through 2014 tax years. Although Inland Diversified believed that it was organized and operated in conformity with the requirements for qualification and taxation as a REIT for each of its taxable years prior to the Merger, Inland Diversified did not request a ruling from the IRS that it qualified as a REIT, and thus no assurance can be given that it qualified as a REIT;
- We would have to pay significant income taxes, which would reduce our net earnings available for investment or distribution to our shareholders. Moreover, such failure would cause an event of default under our unsecured revolving credit facility and unsecured term loans and may adversely affect our ability to raise capital and to service our debt. This likely would have a significant adverse effect on our earnings and the value of our securities. In addition, we would no longer be required to pay any distributions to shareholders; and
- We would be required to pay penalty taxes of \$50,000 or more for each such failure.

If Inland Diversified failed to qualify as a REIT for a taxable year before the Merger or for the taxable year that includes the Merger and no relief is available, in connection with the Merger we would succeed to any earnings and profits accumulated by Inland Diversified for the taxable periods that it did not qualify as a REIT, and we would have to pay a special dividend and/or employ applicable deficiency dividend procedures (including significant interest payments to the IRS) to eliminate such earnings and profits.

We will pay some taxes even if we qualify as a REIT.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay certain federal, state and local taxes on our income and property. For example, we will be subject to income tax to the extent we distribute less than 100% of our REIT taxable income (including capital gains). Additionally, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which dividends paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. Moreover, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. While we will undertake sales of assets if those assets become inconsistent with our long-term strategic or return objectives, we do not believe that those sales should be considered prohibited transactions, but there can be no assurance that the IRS would not contend otherwise. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell.

In addition, any net taxable income earned directly by our taxable REIT subsidiaries, or through entities that are disregarded for federal income tax purposes as entities separate from our taxable REIT subsidiaries, will be subject to federal and possibly state corporate income tax. We have elected to treat Kite Realty Holdings, LLC as a taxable REIT subsidiary, and we may elect to treat other subsidiaries as taxable REIT subsidiaries in the future. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives or on some deductions taken by the taxable REIT subsidiaries if the economic arrangements between the REIT, the REIT's tenants, and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. Finally, some state and local jurisdictions may tax some

of our income even though as a REIT we are not subject to federal income tax on that income because not all states and localities treat REITs the same way they are treated for federal income tax purposes. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

If Inland Diversified failed to qualify as a REIT for a taxable year before the Merger or the taxable year that includes the Merger and no relief is available, as a result of the Merger (a) we would inherit any corporate income tax liabilities of Inland Diversified for Inland Diversified's open tax years (generally three years or Inland Diversified's 2011 through 2014 tax years but possibly extending back six years or Inland Diversified's initial 2009 tax year through its 2014 tax year), including penalties and interest, and (b) we would be subject to tax on the built-in gain on each asset of Inland Diversified existing at the time of the Merger if we were to dispose of the Inland Diversified asset within five years following the Merger (i.e. before July 1, 2019).

REIT distribution requirements may increase our indebtedness.

We may be required from time to time, under certain circumstances, to accrue income for tax purposes that has not yet been received. In such event, or upon our repayment of principal on debt, we could have taxable income without sufficient cash to enable us to meet the distribution requirements of a REIT. Accordingly, we could be required to borrow funds or liquidate investments on adverse terms in order to meet these distribution requirements. Additionally, the sale of properties resulting in significant tax gains could require higher distributions to our shareholders or payment of additional income taxes in order to maintain our REIT status.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, any income that we generate from transactions intended to hedge our interest rate risk will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges interest rate risk on liabilities used to carry or acquire real estate assets or manages the risk of certain currency fluctuations, and such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements will generally constitute non-qualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a taxable REIT subsidiary. This could increase the cost of our hedging activities because our taxable REIT subsidiary would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our taxable REIT subsidiary will generally not provide any tax benefit, except for being carried back or forward against past or future taxable income in the taxable REIT subsidiary, provided, however, losses in our taxable REIT subsidiary arising in taxable years beginning after December 31, 2017 may only be carried forward and may only be deducted against 80% of future taxable income in the taxable REIT subsidiary.

Complying with the REIT requirements may cause us to forgo and/or liquidate otherwise attractive investments.

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our shareholders and the ownership of our shares. To meet these tests, we may be required to take actions we would otherwise prefer not to take or forgo taking actions that we would otherwise consider advantageous. For instance, in order to satisfy the gross income or asset tests applicable to REITs under the Code, we may be required to forgo investments that we otherwise would make. Furthermore, we may be required to liquidate from our portfolio otherwise attractive investments. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. These actions could reduce our income and amounts available for distribution to our shareholders. Thus, compliance with the REIT requirements may hinder our investment performance.

Dividends paid by REITs generally do not qualify for effective tax rates as low as dividends paid by non-REIT "C" corporations.

The maximum rate applicable to “qualified dividend income” paid by non-REIT “C” corporations to certain non-corporate U.S. shareholders has been reduced by legislation to 23.8% (taking into account the 3.8% Medicare tax applicable to net investment income). Dividends payable by REITs, however, generally are not eligible for the reduced rates. Effective for taxable years beginning after December 31, 2017 and before January 1, 2026, non-corporate shareholders may deduct 20% of their dividends from REITs (excluding qualified dividend income and capital gains dividends). For non-corporate shareholders in the top marginal tax bracket of 37%, the deduction for REIT dividends yields an effective income tax rate of 29.6% on REIT dividends, which is higher than the 20% tax rate on qualified dividend income paid by non-REIT “C” corporations. This does not adversely affect the taxation of REITs, however, it could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT “C” corporations that pay dividends, which could adversely affect the value of our common shares.

If the Operating Partnership fails to qualify as a partnership for U.S. federal income tax purposes, we could fail to qualify as a REIT and suffer other adverse consequences.

We believe that our Operating Partnership is organized and operated in a manner so as to be treated as a partnership and not an association or a publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes. As a partnership, our Operating Partnership is not subject to U.S. federal income tax on its income. Instead, each of the partners is allocated its share of our Operating Partnership’s income. No assurance can be provided, however, that the IRS will not challenge our Operating Partnership’s status as a partnership for U.S. federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in treating our Operating Partnership as an association or publicly traded partnership taxable as a corporation for U.S. federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, would cease to qualify as a REIT. Also, the failure of the Operating Partnership to qualify as a partnership would cause it to become subject to U.S. federal corporate income tax, which would reduce significantly the amount of its cash available for distribution to its partners, including us.

There is a risk that the tax laws applicable to REITs may change.

The IRS, the United States Treasury Department and Congress frequently review federal income tax legislation, regulations and other guidance. The Company cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify the Company’s tax treatment and, therefore, may adversely affect our taxation or taxation of our shareholders. In particular, H.R.1 (Tax Cuts & Jobs Act), which was signed into law on December 22, 2017 and which generally takes effect for taxable years beginning on or after January 1, 2018, makes many significant changes to the federal income tax laws that will profoundly impact the taxation of individuals and corporations (both non-REIT “C” corporations as well as corporations that have elected to be taxed as REITs). A number of changes that affect non-corporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes will impact us and our shareholders in various ways, some of which are adverse or potentially adverse compared to prior law. To date, the IRS has issued only limited guidance with respect to certain of the new provisions, and there are numerous interpretive issues that will require guidance. It is highly likely that technical corrections legislation will be needed to clarify certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or changes needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Retail Operating Properties

As of December 31, 2017, we owned interests in a portfolio of 105 retail operating properties totaling approximately 21.2 million square feet of total GLA (including approximately 6.2 million square feet of non-owned anchor space). The following table sets forth more specific information with respect to our retail operating properties as of December 31, 2017:

Property ¹	Location (MSA)	Year Built/ Renovated	Owned GLA ²			Leased ³			ABR		Other Retailers ⁴
			Total	Anchors	Shops	Total	Anchors	Shops	per SqFt		
Alabama											
Trussville Promenade	Birmingham	1999	463,836	376,010	87,826	95.2 %	100.0 %	74.5 %	9.67	Wal-Mart, (Sam's Club)	Regal Cinemas, Marshalls, Big Lots, PetSmart, Dollar Tree, Ross Dress for Less, (Kohl's)
Arizona											
The Corner	Tucson	2008	79,902	55,883	24,019	100.0 %	100.0 %	100.0 %	29.50	Total Wine & More	Nordstrom Rack, Panera Bread, (Home Depot)
Connecticut											
Killingly Commons ³	Killingly	2010	205,683	148,250	57,433	96.9 %	100.0 %	89.0 %	16.30	Stop & Shop Supermarket, (Target)	TJ Maxx, Bed Bath & Beyond, Michaels, Petco, Staples, Lowe's Home Improvement Center
Florida											
12th Street Plaza	Vero Beach	1978/2003	135,016	121,376	13,640	100.0 %	100.0 %	100.0 %	10.05	Publix	Stein Mart, Tuesday Morning
Bayport Commons	Tampa	2008	97,163	71,540	25,623	64.5 %	58.0 %	82.6 %	18.45	(Target)	PetSmart, Michaels
Bolton Plaza	Jacksonville	1986/2014	154,555	136,195	18,360	100.0 %	100.0 %	100.0 %	9.76	Aldi	L.A. Fitness, Academy Sports, Marshalls, Panera Bread
Centre Point Commons	Bradenton	2007	119,275	93,574	25,701	100.0 %	100.0 %	100.0 %	17.50		Best Buy, Dick's Sporting Goods, Office Depot, Panera Bread, (Lowe's Home Improvement Center)
Cobblestone Plaza	Ft. Lauderdale	2011	133,220	68,169	65,051	84.9 %	70.4 %	100.0 %	30.78	Whole Foods	Party City
Colonial Square	Fort Myers	2010	186,609	150,505	36,104	69.7 %	71.9 %	60.6 %	13.06		Kohl's, Hobby Lobby, PetSmart,
Delray Marketplace ³	Miami	2013	260,181	118,136	142,045	99.3 %	100.0 %	98.6 %	26.35	Publix	Frank Theatres, Burt & Max's, Carl's Patio, Ann Taylor Loft, Chico's, White House Black Market
Estero Town Commons	Naples	2006	25,696	—	25,696	80.4 %	—	80.4 %	14.72		Lowe's Home Improvement Center, Dollar Tree
Gainesville Plaza	Gainesville	1970/2015	162,309	125,162	37,147	92.3 %	100.0 %	66.4 %	9.44	Save a Lot	Ross Dress for Less, Burlington, 2nd and Charles
Hunter's Creek Promenade	Orlando	1994	119,729	55,999	63,730	100.0 %	100.0 %	100.0 %	14.67	Publix	Beall's, Office Depot, Dollar Tree
Indian River Square	Vero Beach	1997/2004	142,592	109,000	33,592	92.5 %	100.0 %	68.2 %	11.43	(Target)	Bed, Bath & Beyond, Stein Mart, Old Navy, Staples, Michaels, Dick's Sporting Goods, Shoe Carnival
International Speedway Square	Daytona	1999/2013	233,424	203,405	30,019	98.3 %	100.0 %	86.7 %	11.30	Total Wine & More	
Kings Lake Square	Naples	1986/2014	88,588	45,600	42,988	95.5 %	100.0 %	90.8 %	18.50	Publix	PetSmart
Lake City Commons	Lake City	2008	65,723	45,600	20,123	100.0 %	100.0 %	100.0 %	14.82	Publix	Walgreens
Lake City Commons - Phase II	Lake City	2011	16,291	12,131	4,160	100.0 %	100.0 %	100.0 %	15.62	Publix	SteinMart, Starbuck's, Salon Lofts
Lake Mary Plaza	Orlando	2009	21,370	14,880	6,490	100.0 %	100.0 %	100.0 %	37.49		Stein Mart, Chili's, Panera Bread
Lakewood Promenade	Jacksonville	1948/1998	196,739	77,840	118,899	85.8 %	100.0 %	76.6 %	12.42	Winn Dixie	Kohl's, Miami Children's Hospital, Dollar General
Lithia Crossing	Tampa	2003/2013	90,505	53,547	36,958	98.7 %	100.0 %	96.8 %	15.19	The Fresh Market	TJ Maxx, Ulta Beauty, Beall's, Crunch Fitness, Tuesday Morning
Miramar Square	Ft. Lauderdale	2008	224,737	137,505	87,232	86.6 %	85.5 %	93.6 %	16.07		Michaels, PetSmart, Ross Dress for Less, TJ Maxx, Ulta Beauty
Northdale Promenade	Tampa	1985/2017	173,862	118,269	55,593	99.4 %	100.0 %	98.1 %	12.84	(Winn Dixie)	Ulta Beauty, (Beall's)
Palm Coast Landing at Town Square	Palm Coast	2010	168,352	100,822	67,530	98.6 %	100.0 %	96.6 %	18.91	(Target)	
Pine Ridge Crossing	Naples	1993	105,962	66,435	39,527	100.0 %	100.0 %	100.0 %	17.92	Publix, (Target)	

Property ¹	Location (MSA)	Year Built/ Renovated	Owned GLA ²			Leased ³ %			ABR		Other Retailers ⁴
			Total	Anchors	Shops	Total	Anchors	Shops	per SqFt	Grocery Anchors ⁴	
Pleasant Hill Commons	Orlando	2008	70,643	45,600	25,043	98.3 %	100.0 %	95.2 %	15.15	Publix	
Riverchase Plaza	Naples	1991/2001	78,291	48,890	29,401	100.0 %	100.0 %	100.0 %	16.31	Publix	
Saxon Crossing	Orange City	2009	119,907	95,304	24,603	94.2 %	100.0 %	71.9 %	15.00	(Target)	Hobby Lobby, LA Fitness, (Lowe's Home Improvement Center)
Shoppes of Eastwood	Orlando	1997	69,076	51,512	17,564	98.1 %	100.0 %	92.5 %	13.53	Publix	
Shops at Eagle Creek	Naples	1983/2013	70,768	50,187	20,581	98.4 %	100.0 %	94.3 %	15.81	The Fresh Market	
Tamiami Crossing	Naples	2016	121,705	121,705	—	100.0 %	100.0 %	— %	12.51	Aldi, (Wal-Mart)	Staples, (Lowe's Home Improvement Center), Panera Bread
Tarpon Bay Plaza	Naples	2007	82,528	60,139	22,389	96.6 %	100.0 %	87.5 %	17.80	(Target)	Marshalls, Michaels, PetSmart, Ross Dress for Less, Stein Mart, Ulta Beauty
Temple Terrace	Temple Terrace	2012	90,328	58,798	31,530	92.9 %	100.0 %	79.6 %	10.55	Winn Dixie	PetSmart, Cost Plus World Market, Staples, Panera Bread
The Landing at Tradition	Port St. Lucie	2007	360,276	290,396	69,880	83.8 %	86.1 %	74.2 %	16.00	(Target)	Burger King
The Shops at Julington Creek	Jacksonville	2011	40,219	21,038	19,181	96.5 %	100.0 %	92.6 %	19.43	The Fresh Market	TJ Maxx, Ulta Salon, Bed Bath & Beyond, LA Fitness, Michaels, Old Navy, PetSmart, Pier 1, DSW, Five Below
Tradition Village Center	Port St. Lucie	2006	84,084	45,600	38,484	95.5 %	100.0 %	90.2 %	17.08	Publix	
Waterford Lakes Village	Orlando	1997	77,971	51,703	26,268	98.4 %	100.0 %	95.2 %	13.13	Winn Dixie	
Georgia											
Mullins Crossing	Evans	2005	251,712	205,716	45,996	100.0 %	100.0 %	100.0 %	12.73	(Target)	Ross Dress for Less, Babies "R" Us, Kohls, La-Z-Boy, Marshalls, Office Max, Petco, Ulta Beauty, Panera Bread
Publix at Acworth	Atlanta	1996	69,640	37,888	31,752	98.3 %	100.0 %	96.2 %	12.52	Publix	
The Centre at Panola	Atlanta	2001	73,061	51,674	21,387	100.0 %	100.0 %	100.0 %	13.04	Publix	
Illinois											
Fox Lake Crossing	Chicago	2002	99,136	65,977	33,159	90.7 %	100.0 %	72.2 %	13.34	Dominick's Finer Foods	Dollar Tree
Naperville Marketplace	Chicago	2008	83,743	61,683	22,060	100.0 %	100.0 %	100.0 %	13.83	(Caputo's Fresh Market)	TJ Maxx, PetSmart,
South Elgin Commons	Chicago	2011	128,000	128,000	—	100.0 %	100.0 %	— %	14.55	(Target)	LA Fitness, Ross Dress for Less, Toys "R" Us/Babies "R" Us
Indiana											
54th & College	Indianapolis	2008	—	—	—	— %	— %	— %	0.00	The Fresh Market	
Beacon Hill	Crown Point	2006	56,820	11,043	45,777	98.0 %	100.0 %	97.5 %	16.09	(Strack & Van Till)	(Walgreens), Jimmy John's, Rosati's, Great Clips
Bell Oaks Centre	Newburgh	2008	94,958	74,122	20,836	100.0 %	100.0 %	100.0 %	12.17	Schnuck's Market	Petco, TJ Maxx, Ulta Beauty, Shoe Carnival, (Kohl's)
Boulevard Crossing	Kokomo	2004	124,634	74,440	50,194	94.7 %	100.0 %	86.7 %	14.83	—	(Walgreens), The Local Eatery, Original Pancake House
Bridgewater Marketplace	Indianapolis	2008	25,975	—	25,975	86.8 %	— %	86.8 %	20.58	—	TJ Maxx/Home Goods, Burlington, Shoe Carnival, Value City Furniture, K&G Menswear, Chipotle, Verizon, Five Below
Castleton Crossing	Indianapolis	1975/2012	286,377	247,710	38,667	100.0 %	100.0 %	100.0 %	11.86	—	Stein Mart, McAlister's Deli, Beauty Brands, Buffalo Wild Wings, Pet People
Cool Creek Commons	Indianapolis	2005	124,272	53,600	70,672	93.8 %	100.0 %	89.2 %	18.30	The Fresh Market	Follett's, Starbucks
DePauw University Bookstore and Café	Greencastle	2012	11,974	—	11,974	100.0 %	— %	100.0 %	9.17	—	

Property ¹	Location (MSA)	Year Built/ Renovated	Owned GLA ²			Leased %			ABR		Other Retailers ⁴
			Total	Anchors	Shops	Total	Anchors	Shops	per SqFt	Grocery Anchors ⁴	
Eddy Street Commons at Notre Dame	South Bend	2009	87,991	20,154	67,837	96.0 %	100.0 %	94.8 %	25.59		Hammes Bookstore & Cafe, Chipotle, Urban Outfitters, Five Guys, Kiliwi's, Blaze Pizza
Geist Pavilion	Indianapolis	2006	63,910	29,700	34,210	100.0 %	100.0 %	100.0 %	16.98		Ace Hardware, Goodwill, Ale Emporium, Pure Barre
Glendale Town Center	Indianapolis	1958/2008	393,002	329,546	63,456	97.8 %	100.0 %	86.6 %	7.33 (Target)		Macy's, Staples, Landmark Theaters, Pet Wei, LensCrafter's, Panera Bread, (Walgreens), (Lowe's Home Improvement Center)
Greyhound Commons	Indianapolis	2005	9,152	—	9,152	100.0 %	— %	100.0 %	13.60		PetSmart, Office Depot, Aldi, Dollar Tree
Lima Marketplace	Fort Wayne	2008	100,461	71,521	28,940	94.8 %	100.0 %	81.8 %	14.81	Aldi, (Wal-Mart)	
Rangeline Crossing	Indianapolis	1986/2013	100,196	47,962	52,234	99.0 %	100.0 %	98.2 %	22.21	Earth Fare	
Rivers Edge	Indianapolis	2011	150,428	117,890	32,538	100.0 %	100.0 %	100.0 %	21.92		Nordstrom Rack, The Container Store, Arihaus Furniture, Bicycle Garage of Indy, Buy Buy Baby, J Crew Mercantile
Stoney Creek Commons	Indianapolis	2000/2013	84,330	84,330	—	64.1 %	64.1 %	— %	13.44		LA Fitness, Goodwill, (Lowe's Home Improvement Center)
Traders Point I	Indianapolis	2005	279,646	238,721	40,925	74.7 %	71.6 %	93.0 %	14.99		Dick's Sporting Goods, AMC Theatre, Bed, Bath & Beyond, Michaels, Old Navy, PetSmart, Books-A-Million
Traders Point II	Indianapolis	2005	45,977	—	45,977	92.2 %	— %	92.2 %	26.42		
Whitehall Pike	Bloomington	1999	128,997	128,997	—	100.0 %	100.0 %	— %	7.86		
<u>Nevada</u>											
Cannery Corner ³	Las Vegas	2008	30,738	—	30,738	94.4 %	— %	94.4 %	36.19	(Sam's Club)	Chipotle, Five Guys, (Lowe's Home Improvement Center)
Centennial Center ³	Las Vegas	2002	334,377	158,196	176,181	88.6 %	85.3 %	91.6 %	24.53	Sam's Club, Wal-Mart	Ross Dress for Less, Big Lots, Famous Footwear, Michaels, Party City, Petco, Rhapsodiette, Home Depot
Centennial Gateway ³	Las Vegas	2005	193,085	139,913	53,172	91.8 %	92.1 %	91.2 %	24.19	Trader Joe's	24 Hour Fitness, Sportsman's Warehouse, Walgreens
Eastern Beltway Center ³	Las Vegas	1998/2006	158,938	83,982	74,956	98.1 %	100.0 %	96.0 %	24.46	Sam's Club, Wal-Mart	Office Max, Petco, Ross Dress for Less, Skechers, (Home Depot)
Eastgate Plaza ³	Las Vegas	2002	96,594	53,030	43,564	79.9 %	76.4 %	84.1 %	23.45	(Wal-Mart)	99 Cent Only Store, Party City
Lowe's Plaza ³	Las Vegas	2007	30,210	—	30,210	67.6 %	— %	67.6 %	27.89		Anytime Fitness, Starbucks, (Lowe's Home Improvement Center)
<u>New Hampshire</u>											
Merrimack Village Center	Merrimack	2007	78,892	54,000	24,892	100.0 %	100.0 %	100.0 %	14.72	Supervalue/Shaw's	
<u>New Jersey</u>											
Bayonne Crossing	Bayonne	2011	106,137	52,219	53,918	97.0 %	100.0 %	94.1 %	28.28	Wal-Mart	Michaels, New York Sports Club, Lowe's Home Improvement Center
Livingston Shopping Center	Newark	1997	139,559	133,125	6,434	95.4 %	100.0 %	— %	19.77		Cost Plus, Buy Buy Baby, Nordstrom Rack, DSW, TJ Maxx, Ulta Beauty
<u>North Carolina</u>											
Holly Springs Towne Center - Phase I	Raleigh	2013	207,566	109,233	98,333	92.2 %	100.0 %	83.4 %	16.87	(Target)	Dick's Sporting Goods, Marshalls, Petco, Ulta Beauty, Michaels
Holly Springs Towne Center - Phase II	Raleigh	2016	145,009	111,843	33,166	100.0 %	100.0 %	100.0 %	17.98	(Target)	Bed Bath & Beyond, DSW, AMC Theatre/Carmike, 02 Fitness

Property ¹	Location (MSA)	Year Built/ Renovated	Owned GLA ²			Leased %			ABR		Other Retailers ⁴
			Total	Anchors	Shops	Total	Anchors	Shops	per SqFt		
Memorial Commons	Goldsboro	2008	111,022	73,876	37,146	100.0 %	100.0 %	100.0 %	13.26		Office Depot
Northerst Shopping Center	Charlotte	2008	133,674	65,576	68,098	95.1 %	100.0 %	90.5 %	22.65	(Target)	REI Co-Op, David's Bridal, Dollar Tree, Old Navy, Five Below
Oleander Place	Wilmington	2012	45,530	30,144	15,386	100.0 %	100.0 %	100.0 %	17.03		Petco, Guitar Center
Parkside Town Commons - Phase I	Raleigh	2015	55,390	22,500	32,890	100.0 %	100.0 %	100.0 %	24.35	(Target)	Frank Theatres, Golf Galaxy, Hobby Lobby, Stein Mart, Chuy's, Starbucks, Panera Bread, Levity Live
Parkside Town Commons - Phase II	Raleigh	2017	291,713	191,988	99,725	97.5 %	100.0 %	92.5 %	19.66	(Target)	Best Buy, Off Broadway Shoes, Office Max, PetSmart, Lowe's Home Improvement Center
Perimeter Woods	Charlotte	2008	125,646	105,262	20,384	100.0 %	100.0 %	100.0 %	21.10		
Torngdon Market	Charlotte	2004	60,314	26,072	34,242	100.0 %	100.0 %	100.0 %	21.49		
Ohio											
Eastgate Pavilion	Cincinnati	1995	236,230	231,730	4,500	100.0 %	100.0 %	100.0 %	9.15		Best Buy, Dick's Sporting Goods, Value City Furniture, Peismart, DSW, Bed Bath & Beyond
Oklahoma											
Belle Isle Station	Oklahoma City	2000	164,407	92,783	71,624	98.5 %	100.0 %	96.5 %	17.35	(Wal-Mart)	Shoe Carnival, Old Navy, Ross Stores, Nordstrom Rack, Babies "R" Us, Ulta Beauty
Shops at Moore	Moore	2010	260,530	187,916	72,614	94.7 %	100.0 %	80.9 %	12.16		Bed Bath and Beyond, Best Buy, Hobby Lobby, Office Depot, PetSmart, Ross Dress for Less, (JC Penny)
Silver Springs Pointe	Oklahoma City	2001	48,474	20,515	27,959	79.1 %	100.0 %	63.7 %	15.88	(Sam's Club), (Wal-Mart)	Kohls, Office Depot, (Home Depot)
University Town Center	Norman	2009	158,375	77,097	81,278	91.3 %	100.0 %	83.0 %	18.00	(Target)	Office Depot, Petco, TJ Maxx, Ulta Beauty
University Town Center Phase II	Norman	2012	190,487	133,546	56,941	93.0 %	100.0 %	76.7 %	12.68	(Target)	Academy Sports, DSW, Home Goods, Michaels, Kohls, Guitar Center
South Carolina											
Hitchcock Plaza	Augusta-Aiken	2006	252,370	214,480	37,890	88.8 %	89.7 %	84.2 %	10.38		TJ Maxx, Ross Dress for Less, Academy Sports, Bed Bath and Beyond, Farmers Home Furniture, Old Navy, Petco
Publix at Woodruff	Greenville	1997	68,055	47,955	20,100	100.0 %	100.0 %	100.0 %	11.17		Publix
Shoppes at Plaza Green	Greenville	2000	194,807	172,136	22,671	94.7 %	94.1 %	100.0 %	13.33		Bed Bath & Beyond, Christmas Tree Shops, Sears, Party City, Shoe Carnival, AC Moore, Old Navy
Tennessee											
Cool Springs Market	Nashville	1995	230,980	172,712	58,268	99.5 %	100.0 %	97.9 %	15.78	(Kroger)	Dick's Sporting Goods, Marshalls, Buy Buy Baby, DSW, Staples, Jo-Ann Fabric, Panera Bread
Hamilton Crossing - Phase II & III	Alcoa	2008	175,464	135,737	39,727	94.8 %	100.0 %	77.2 %	14.95		Dick's Sporting Goods, Michaels, Old Navy, PetSmart, Ross Dress for Less
Texas⁴											
Chapel Hill Shopping Center	Fort Worth	2001	126,989	43,450	83,539	94.6 %	100.0 %	91.7 %	25.23	H-E-B Grocery	The Container Store, Cost Plus World Market

Property ¹	Location (MSA)	Year Built/ Renovated	Owned GLA ²			Leased ³ %			ABR per SqFt	Grocery Anchors ⁴	Other Retailers ⁴
			Total	Anchors	Shops	Total	Anchors	Shops			
Colleyville Downs	Dallas	2014	190,895	142,073	48,822	97.8 %	100.0 %	91.3 %	12.99	Westlake Hardware, Vineyards Antique Mall, Goody Goody Liquor, Petco	
Kingwood Commons	Houston	1999	164,366	74,836	89,530	100.0 %	100.0 %	100.0 %	19.99	Petco, Chico's, Talbots, Ann Taylor	
Market Street Villages/ Pipeline Point	Fort Worth	1970/2011	156,621	136,742	19,879	100.0 %	100.0 %	100.0 %	13.06	Jo-Ann Fabric, Ross, Office Depot, Buy Buy Baby, Party City	
Plaza at Cedar Hill	Dallas	2000/2010	302,458	244,065	58,393	100.0 %	100.0 %	100.0 %	13.34	DSW, Ross Dress for Less, Hobby Lobby, Office Max, Marshalls, Toys "R" Us/Babies "R" Us, Home Goods	
Plaza Volente	Austin	2004	156,296	105,000	51,296	97.2 %	100.0 %	91.4 %	17.41	H-E-B Grocery	
Portofino Shopping Center	Houston	1999/2010	386,647	218,909	167,738	95.5 %	100.0 %	89.7 %	19.73	(Sam's Club)	
Sunland Towne Centre	El Paso	1996/2014	306,454	265,037	41,417	98.9 %	100.0 %	91.7 %	12.02	Sprouts Farmers Market	
Waxahachie Crossing	Waxahachie	2010	97,127	72,191	24,936	100.0 %	100.0 %	100.0 %	14.76	Best Buy, PetSmart, Ross Dress for Less, (Home Depot), (JC Penny)	
Westside Market	Dallas	2013	93,377	70,000	23,377	100.0 %	100.0 %	100.0 %	16.13	Randall's Tom Thumb	
<u>Utah</u>											
Draper Crossing	Salt Lake City	2012	164,080	115,916	48,164	95.0 %	100.0 %	82.8 %	15.63	Kroger/Smith's	
Draper Peaks	Salt Lake City	2012	227,970	101,464	126,506	97.6 %	100.0 %	95.6 %	20.14	TJ Maxx, Dollar Tree, Downeast Home	
<u>Virginia</u>											
Landstown Commons	Virginia Beach	2007	397,835	207,300	190,535	95.1 %	100.0 %	89.7 %	19.31	Michaels, Office Depot, Petco, Quilted Bear, Ross Dress for Less, (Kohl's)	
<u>Wisconsin</u>											
Village at Bay Park	Ashwaubenon	2005	82,238	23,878	58,360	88.5 %	100.0 %	83.7 %	16.08	Ross Dress for Less, Bed Bath & Beyond, Best Buy, PetSmart, Ulta Beauty, Walgreens, AC Moore, Kirkland's, Five Below, Office Max, (Kohl's)	
										DSW, JC Penney, Kirkland's, Chico's, Dress Barn	
Total			14,989,433	10,245,806	4,743,627	94.8 %	96.7 %	90.5 %	16.07		

Total Including 3-R Properties not in the Operating Portfolio

\$ 16.32

- 1 All properties are wholly owned, except as indicated. Unless otherwise noted, each property is owned in fee simple by the Company.
- 2 Percentage of Owned GLA Leased reflects Owned GLA/NRA leased as of December 31, 2017, except for Greyhound Commons and 54th & College.
- 3 Operating property is a joint venture.
- 4 Tenants within parentheses are non-owned.

Office Operating Properties and Other

As of December 31, 2017, we owned interests in one office operating property and an associated parking garage. In addition, two of our retail properties contain stand-alone office components. Together, these properties have a total of 0.4 million square feet of net rentable area (“NRA”) office space. The following table sets forth more specific information with respect to our office, parking and other properties as of December 31, 2017:

(\$ in thousands, except per square foot data)

Property	MSA	Year Built/ Renovated	Acquired, Redeveloped or Developed	Owned NRA	Percentage Of Owned NRA Leased	Annualized Base Rent ¹	Percentage of Annualized Office and Other Base Rent	Base Rent Per Leased Sq. Ft.	Major Tenants
Office Properties									
Thirty South Meridian ²	Indianapolis	1905/2002	Redeveloped	287,928	70.7 %	\$ 3,762	60.7 %	\$ 18.47	Stifel, Kite Realty Group, Lumina Foundation
Union Station Parking Garage ³	Indianapolis	1986	Acquired	N/A	N/A	N/A	N/A	N/A	Denison Parking
Stand-alone Office Components of Retail Properties									
Eddy Street Office (part of Eddy Street Commons) ⁴	South Bend	2009	Developed	81,628	100.0 %	1,256	20.2 %	15.38	University of Notre Dame Offices
Tradition Village Office (part of Tradition Village Square) ⁵	Port St. Lucie	2006	Acquired	24,206	87.4 %	594	9.6 %	28.05	
Total Office Properties				393,762	77.8 %	\$ 5,611	90.5 %	\$ 18.31	
Lessee of Land on Short Term Renewal									
Burlington	San Antonio	1992/2000	Acquired	107,400	100.0 %	\$ 591	9.5 %	\$ 5.50	Burlington
Total Office and Other				107,400	100.0 %	\$ 591	9.5 %	\$ 5.50	
Multi-Family									
Lake Lofts at Deerwood ⁶	Jacksonville	2017	Developed	—	—	—	—	—	130 Apartment Units

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- 1 Annualized Base Rent represents the monthly contractual rent for December 2017 for each applicable property, multiplied by 12.
 - 2 Annualized Base Rent includes \$793,117 from the Company and subsidiaries as of December 31, 2017, which is eliminated for purposes of our consolidated financial statement presentation.
 - 3 The garage is managed by a third party.
 - 4 The Company also owns the Eddy Street Commons retail shopping center in South Bend, Indiana, along with a parking garage that serves a hotel and the office and retail components of the property.
 - 5 The Company also owns the Tradition Village Square retail shopping center in Port St. Lucie, Florida.
 - 6 Lake Lofts at Deerwood has 82 leases executed as of December 31, 2017.

Development Projects Under Construction

In addition to our retail and office operating properties, as of December 31, 2017, we owned interests in two development projects currently under construction. The following table sets forth more specific information with respect to the Company's retail development properties as of December 31, 2017:

(\$ in thousands)

Project	Company Ownership %	MSA	Projected Stabilization Date ¹	Projected Owned GLA ²	Projected Total GLA ³	Percent of Owned GLA Occupied	Percent of Owned GLA Pre-Leased/Committed	KRG Share of Total Estimated Project Cost ⁴	KRG Share of Cost Incurred as of December 31, 2017	Major Tenants and Non-owned Anchors
Embassy Suites at the University of Notre Dame	35%	South Bend	Q4 2018	152,460	152,460	NA	NA	\$ 13,895	3,840	Embassy Suites full-service hotel
Eddy Street Commons at Notre Dame, IN - Phase II ⁵	100%	South Bend	Q4 2020	8,500	530,000	—%	—%	\$ 8,447	1,247	Ground lease with multi-family developer on 450 units; 8,500 square feet of owned retail.
Total				160,960	682,460	—%	—%	\$ 22,342	\$ 5,087	

¹ Stabilization date represents near completion of project construction and substantial occupancy of the property.

² Projected Owned GLA represents gross leasable area we project we will own. It excludes square footage that we project will be attributable to non-owned outlot structures on land owned by us and expected to be ground leased to tenants. It also excludes non-owned anchor space.

³ Projected Total GLA includes Projected Owned GLA, projected square footage attributable to non-owned outlot structures on land that we own, and non-owned anchor space that currently exists or is under construction.

⁴ Total Estimated Project Cost of \$13.9 million reflects Kite's pro-rata share of the gross project cost (\$45.7 million) after deducting the TIF contribution (\$6 million)

⁵ Total estimated cost of all components of Eddy Street Phase II equals \$89.2 million. This consists of KRG estimated project cost (\$8.4 million), Tax Increment Financing (\$16.1 million), and residential apartments and townhomes to be ground subleased to unrelated third party (\$64.7 million).

Under Construction Redevelopment, Reposition, and Repurpose ("3-R") Projects

In addition to our development projects, as displayed in the table above, we currently have several 3-R projects under construction. The following table sets forth more specific information with respect to our ongoing 3-R projects as of December 31, 2017 and 3-R projects completed in 2017:

(\$ in thousands)

Property	Location (MSA)	Description	Projected ROI	Projected Cost	Percentage of Cost Spent	Est. Stabilized Period
Beechwood Promenade*	Athens	Backfilling vacant anchor and shop space with Michaels, and construction of outlot for Starbucks.	8.5% - 9.5%	\$8,000 - \$9,000	18%	2H 2018
Burnt Store Marketplace*	Punta Gorda	Demolition and rebuild of a 45,000 square foot Publix under a new 20 year lease, as well as additional center upgrades.	10.5% - 11.5%	\$9,000 - \$10,000	92%	1H 2018
Centennial Center A	Las Vegas	Reposition of two retail buildings totaling 14,000 square feet, as well as Panera Bread outlot. Addition of traffic signal and other significant building/site enhancements.	10.0% - 11.0%	\$4,000 - \$5,000	51%	2H 2018
City Center*	New York City	Reactivating street-level retail components and enhancing overall shopping experience within multi-level project.	6.5% - 7.0%	\$17,000 - \$17,500	88%	1H 2018
Fishers Station*	Indianapolis	Demolition and expansion of previous anchor space and replacement with a Kroger ground lease. Center upgrades and new shop space.	9.5% - 10.5%	\$10,500 - \$11,500	80%	2H 2018
Portofino Shopping Center, Phase II	Houston	Demolition and expansion of vacant space to accommodate Nordstrom Rack; rightsizing of existing Old Navy, and relocation of shop tenants.	8.0% - 8.5%	\$6,500 - \$7,000	69%	1H 2018
Rampart Commons*	Las Vegas	Relocating, re-tenanting, and renegotiating leases as a part of new development plan. Upgrades to building façades and hardscape throughout the center.	7.0% - 7.5%	\$16,000 - \$17,000	37%	2H 2018
UNDER CONSTRUCTION REDEVELOPMENT, REPOSITION, REPURPOSE TOTALS			8.0% - 9.0%	\$71,000 - \$77,000	64%	

Note: These projects are subject to various contingencies, many of which are beyond the Company's control. Projected costs and returns are based on current estimates. Actual costs and returns may not meet our expectations.

COMPLETED PROJECTS DURING 2017

Property	Location (MSA)	Description	Annual Projected ROI	Cost
Bolton Plaza, Phase II	Jacksonville	Replaced vacant shop space with Marshalls and a ground lease with Aldi, as well as additional center upgrades.	10.5%	\$5,217
Castleton Crossing	Indianapolis	Demolition of existing structure to create new outparcel small shop building.	11.8%	\$3,300
Centennial Gateway	Las Vegas	Retenancing 13,950 square foot anchor location to enhance overall quality of the center; also includes additional structural improvements and building upgrades.	30.0%	\$1,120
Market Street Village	Fort Worth	Retenancing 15,000 square foot anchor space with Party City.	30.9%	\$840
Northdale Promenade	Tampa	Multi-phase project involving rightsizing of an existing shop tenant to accommodate construction of new junior anchor, and the demolition of shop space to add another junior anchor, enhance space visibility, and improve overall small shop mix.	14.4%	\$4,200
Portofino Shopping Center, Phase I	Houston	Addition of two small shop buildings on outparcels.	9.1%	\$5,100
Trussville Promenade 1	Birmingham	Replaced vacant small shops with a 22,000 square foot Ross.	9.5%	\$3,695
COMPLETED PROJECTS TOTALS			12.3%	\$23,472

1 Refers to Trussville I

* Asterisk represents redevelopment assets removed from the operating portfolio.

Redevelopment, Reposition, and Repurpose ("3-R") Opportunities

In addition to our 3-R projects under construction, we are currently evaluating additional redevelopment, repositioning, and repurposing opportunities at a number of operating properties.

(\$ in thousands)

Property	Type of Project	Location (MSA)	Description
Courthouse Shadows*	Redevelopment	Naples	Recapture of natural lease expiration; demolition of the site to add mixed use format and outparcel development.
Hamilton Crossing Centre*	Redevelopment	Indianapolis	Recapture of lease expiration; substantially enhancing merchandising mix and replacing vacant anchor tenant.
Centennial Center B	Reposition 1	Las Vegas	General building enhancements to five remaining outparcels. Addition of two restaurants to anchor the small shop building.
The Corner*	Repurpose	Indianapolis	Creation of a mixed use (retail and multi-family) development to replace an unanchored small shop center.
Total Targeted Return			9.0% - 11.0%
Total Expected Cost			\$40,000 - \$56,000

¹ Reposition refers to less substantial asset enhancements based on internal costs.

* Asterisk represents redevelopment assets removed from the operating portfolio.

Note: These opportunities are merely potential at this time and are subject to various contingencies, many of which are beyond the Company's control. Targeted return is based upon our current expectations of capital expenditures, budgets, anticipated leases and certain other factors relating to such opportunities. The actual return on these investments may not meet our expectations.

Tenant Diversification

No individual retail or office tenant accounted for more than 2.5% of the portfolio's annualized base rent for the year ended December 31, 2017. The following table sets forth certain information for the largest 10 tenants and non-owned anchor tenants (based on total GLA) open for business or for which ground lease payments are being made at the Company's retail properties based on minimum rents in place as of December 31, 2017:

TOP 10 RETAIL TENANTS BY GROSS LEASABLE AREA

Tenant	Number of Locations	Total GLA	Number of Leases	Company Owned GLA	Ground Lease GLA	Number of Anchor Owned Locations	Anchor Owned GLA
Wal-Mart Stores, Inc. ¹	15	2,578,323	6	203,742	811,956	9	1,562,625
Target Corporation	15	2,175,101	—	—	—	15	2,175,101
Lowe's Companies, Inc.	14	2,072,666	5	128,997	650,161	9	1,293,508
Home Depot Inc.	6	788,167	1	—	131,858	5	656,309
Kohl's Corporation	9	782,386	5	184,516	244,010	4	353,860
Publix Super Markets, Inc.	14	670,665	14	670,665	—	—	—
The TJX Companies, Inc. ²	22	656,931	22	656,931	—	—	—
Ross Stores, Inc.	18	510,707	18	510,707	—	—	—
Bed Bath & Beyond, Inc. ³	19	493,719	19	493,719	—	—	—
Petsmart, Inc.	19	390,843	19	390,843	—	—	—
Total	151	11,119,508	109	3,240,120	1,837,985	42	6,041,403

1 Includes Sam's Club, which is owned by the same parent company.

2 Includes TJ Maxx (13), Home Goods (2) and Marshalls (7), all of which are owned by the same parent company.

3 Includes Buy Buy Baby (4), Christmas Tree Shops (1) and Cost Plus (3), all of which are owned by the same parent company.

The following table sets forth certain information for the largest 25 tenants open for business at the Company's retail properties based on minimum rents in place as of December 31, 2017:

TOP 25 TENANTS BY ANNUALIZED BASE RENT

(\$ in thousands, except per square foot data)

Tenant	Number of Stores	Leased GLA/NRA ¹	% of Owned GLA/NRA of the Portfolio	Annualized Base Rent ^{2,3}	Annualized Base Rent per Sq. Ft. ³	% of Total Portfolio Annualized Base Rent ³
The TJX Companies, Inc. ⁴	22	656,931	2.7 %	\$ 6,833	\$ 10.40	2.5 %
Publix Super Markets, Inc.	14	670,665	2.7 %	6,739	10.05	2.5 %
Petsmart, Inc.	19	390,843	1.6 %	6,152	15.74	2.2 %
Bed Bath & Beyond, Inc. ⁵	19	493,719	2.0 %	6,050	12.25	2.2 %
Ross Stores, Inc.	18	510,707	2.1 %	5,791	11.34	2.1 %
Lowe's Companies, Inc.	5	128,997	0.5 %	5,039	6.47	1.8 %
Office Depot (9) / Office Max (6)	15	307,788	1.3 %	4,242	13.78	1.6 %
Dick's Sporting Goods, Inc. ⁶	8	390,502	1.6 %	4,167	10.67	1.5 %
Nordstrom, Inc.	6	197,845	0.8 %	3,995	20.19	1.5 %
Michaels Stores, Inc.	14	295,066	1.2 %	3,884	13.16	1.4 %
Ascena Retail Group ⁷	33	202,482	0.8 %	3,817	18.85	1.4 %
Wal-Mart Stores, Inc. ⁸	6	203,742	0.8 %	3,655	3.60	1.3 %
LA Fitness	5	208,209	0.8 %	3,447	16.56	1.3 %
Best Buy Co., Inc.	6	213,604	0.9 %	3,069	14.37	1.1 %
Mattress Firm Holdings Corp (18) / Sleepy's (5)	23	105,001	0.4 %	2,935	27.95	1.1 %
Kohl's Corporation	5	184,516	0.8 %	2,927	6.83	1.1 %
Toys "R" Us, Inc. ⁹	6	179,316	0.7 %	2,924	11.82	1.1 %
National Amusements	1	80,000	0.3 %	2,898	36.22	1.1 %
Petco Animal Supplies, Inc.	12	167,455	0.7 %	2,819	16.83	1.0 %
Ulta Beauty, Inc.	12	127,451	0.5 %	2,559	20.08	0.9 %
DSW Inc.	9	175,133	0.7 %	2,491	14.22	0.9 %
Stein Mart, Inc.	9	307,222	1.3 %	2,378	7.74	0.9 %
Frank Theatres	2	122,224	0.5 %	2,311	18.91	0.8 %
Hobby Lobby Stores, Inc.	5	271,254	1.1 %	2,190	8.07	0.8 %
Walgreens Boots Alliance, Inc.	4	67,212	0.3 %	2,099	31.23	0.8 %
TOTAL	278	6,657,884	27.1%	\$ 95,412	\$ 11.36	34.9%

1 Excludes the estimated size of the structures located on land owned by the Company and ground leased to tenants.

2 Annualized base rent represents the monthly contractual rent for December 31, 2017 for each applicable tenant multiplied by 12. Annualized base rent does not include tenant reimbursements.

3 Annualized base rent and percent of total portfolio includes ground lease rent.

4 Includes TJ Maxx (13), Marshalls (7) and HomeGoods (2), all of which are owned by the same parent company.

5 Includes Bed Bath and Beyond (11), Buy Buy Baby (4) Christmas Tree Shops (1) and Cost Plus (3), all of which are owned by the same parent company.

6 Includes Dick's Sporting Goods (7) and Golf Galaxy (1), both of which are owned by the same parent company.

7 Includes Ann Taylor (5), Catherine's (2), Dress Barn (11), Lane Bryant (7), Justice Stores (4) and Maurices (4), all of which are owned by the same parent company.

8 Includes Sam's Club, which is owned by the same parent company.

9 Includes Babies "R" Us (3), and Toys "R" Us/Babies "R" Us combination stores (3), both of which are owned by the same parent company.

Geographic Diversification – Annualized Base Rent by Region and State

The Company owns interests in 117 operating and redevelopment properties. We also own interests in two development properties under construction. The total operating portfolio consists of approximately 16.8 million of owned square feet in 20 states. The following table summarizes the Company's operating properties by region and state as of December 31, 2017:

(\$ in thousands)

Region/State	Total Operating Portfolio Excluding Developments and Redevelopments		Developments and Redevelopments ²		Number of Properties	Total Operating Portfolio Including Developments and Redevelopments				
	Owned GLA/NRA ¹	Annualized Base Rent	Owned GLA/NRA ¹	Annualized Base Rent		Owned GLA/NRA ¹	Annualized Base Rent - Ground Leases	Total Annualized Base Rent	Percent of Annualized Base Rent	
Florida										
Florida	4,211,900	\$ 61,602	220,597	\$ 1,278	37	4,432,497	\$ 3,885	\$ 66,765	24.6%	
Southeast										
North Carolina	1,175,864	21,847	—	—	9	1,175,864	3,745	25,592	9.4%	
Georgia	394,413	5,013	331,198	3,361	4	725,611	511	8,885	3.3%	
Tennessee	406,444	6,113	—	—	2	406,444	—	6,113	2.3%	
South Carolina	515,232	5,548	—	—	3	515,232	—	5,548	2.0%	
Alabama	463,836	4,267	—	—	1	463,836	151	4,418	1.6%	
Total Southeast	2,955,789	42,788	331,198	3,361	19	3,286,987	4,407	50,556	18.6%	
Mid-Central										
Texas	1,981,230	31,331	—	—	10	1,981,230	1,082	32,413	11.9%	
Oklahoma	822,273	11,267	—	—	5	822,273	1,188	12,455	4.6%	
Texas - Other	107,400	591	—	—	1	107,400	—	591	0.2%	
Total Mid-Central	2,910,903	43,189	—	—	16	2,910,903	2,270	45,459	16.7%	
Midwest										
Indiana - Retail	2,169,100	28,998	178,758	1,619	23	2,347,858	1,171	31,788	11.7%	
Indiana - Other	369,556	5,017	152,460	—	3	522,016	—	5,017	1.8%	
Illinois	310,879	4,219	—	—	3	310,879	—	4,219	1.6%	
Ohio	236,230	2,162	—	—	1	236,230	—	2,162	0.8%	
Wisconsin	82,238	1,170	—	—	1	82,238	381	1,551	0.6%	
Total Midwest	3,168,003	41,566	331,218	1,619	31	3,499,221	1,552	44,737	16.5%	
West										
Nevada	844,942	18,829	79,455	1,462	7	924,397	3,963	24,254	8.9%	
Utah	392,050	6,916	—	—	2	392,050	68	6,984	2.6%	
Arizona	79,902	2,357	—	—	1	79,902	—	2,357	0.8%	
Total West	1,316,894	28,102	79,455	1,462	10	1,396,349	4,031	33,595	12.3%	
Northeast										
New York	—	—	361,618	9,448	1	361,618	—	9,448	3.5%	
New Jersey	245,696	5,545	—	—	2	245,696	2,251	7,796	2.9%	
Virginia	397,835	7,302	—	—	1	397,835	294	7,596	2.8%	
Connecticut	205,683	3,250	—	—	1	205,683	1,034	4,284	1.6%	
New Hampshire	78,892	1,162	—	—	1	78,892	168	1,330	0.5%	
Total Northeast	928,106	17,259	361,618	9,448	6	1,289,724	3,747	30,454	11.3%	
	15,491,595	\$ 234,506	1,324,086	\$ 17,168	119	16,815,681	\$ 19,892	\$ 271,566	100.0%	

-
- 1 Owned GLA/NRA represents gross leasable area or net leasable area owned by the Company. It also excludes the square footage of Union Station Parking Garage.
 - 2 Represents the eight redevelopment and two development projects not in the retail operating portfolio.

Lease Expirations

In 2018, leases representing 7.1% of total annualized base rent and 6.3% of total GLA/NRA expire. The following tables show scheduled lease expirations for retail and office tenants and in-process development property tenants open for business as of December 31, 2017, assuming none of the tenants exercise renewal options.

LEASE EXPIRATION TABLE – OPERATING PORTFOLIO

(\$ in thousands, except per square foot data)

	Number of Expiring Leases ¹	Expiring GLA/NRA ²	% of Total GLA/NR A Expiring	Expiring Annualized Base Rent ^{3,4}	% of Total Annualized Base Rent	Expiring Annualized Base Rent per Sq. Ft.	Expiring Ground Lease Revenue
2018	218	967,337	6.3 %	\$ 17,938	7.1 %	\$ 18.54	\$ 68
2019	254	1,692,272	11.0 %	25,225	10.0 %	14.91	653
2020	255	2,078,070	13.4 %	28,458	11.3 %	13.69	1,592
2021	300	1,779,909	11.5 %	29,724	11.8 %	16.70	911
2022	314	2,167,081	14.0 %	36,769	14.6 %	16.97	1,240
2023	227	1,915,798	12.4 %	32,155	12.8 %	16.78	1,979
2024	101	902,748	5.8 %	16,589	6.6 %	18.38	288
2025	82	776,566	5.0 %	13,604	5.4 %	17.52	806
2026	80	767,131	5.0 %	11,292	4.5 %	14.72	1,320
2027	83	793,480	5.1 %	12,671	5.0 %	15.97	358
Beyond	92	1,613,068	10.5 %	27,250	10.8 %	16.89	10,678
	2,006	15,453,460	100.0%	\$ 251,674	100.0%	\$ 16.29	\$ 19,892

- 1 Lease expiration table reflects rents in place as of December 31, 2017 and does not include option periods; 2018 expirations include 15 month-to-month tenants. This column also excludes ground leases.
- 2 Expiring GLA excludes estimated square footage attributable to non-owned structures on land owned by the Company and ground leased to tenants.
- 3 Annualized base rent represents the monthly contractual rent for December 2017 for each applicable tenant multiplied by 12. Excludes tenant reimbursements and ground lease revenue.
- 4 55% of our annualized base rent is generated from tenants less than 16,000 square feet.

LEASE EXPIRATION TABLE – RETAIL ANCHOR TENANTS¹

(\$ in thousands, except per square foot data)

	Number of Expiring Leases ²	Expiring GLA/NRA ³	% of Total GLA/NRA Expiring	Expiring Annualized Base Rent ⁴	% of Total Annualized Base Rent	Expiring Annualized Base Rent per Sq. Ft.	Expiring Ground Lease Revenue
2018	18	482,006	3.1 %	\$ 5,432	2.2 %	\$ 11.27	\$ —
2019	34	1,103,859	7.1 %	10,789	4.3 %	9.77	—
2020	39	1,538,271	10.0 %	15,534	6.2 %	10.10	1,111
2021	43	1,112,245	7.2 %	12,925	5.1 %	11.62	318
2022	53	1,434,297	9.3 %	18,204	7.2 %	12.69	745
2023	46	1,244,074	8.1 %	17,651	7.0 %	14.19	1,454
2024	21	593,523	3.8 %	9,191	3.7 %	15.49	—
2025	20	511,713	3.3 %	7,112	2.8 %	13.90	381
2026	16	512,101	3.3 %	4,972	2.0 %	9.71	750
2027	20	570,380	3.7 %	6,839	2.7 %	11.99	—
Beyond	37	1,401,881	9.1 %	21,699	8.6 %	15.48	6,377
	347	10,504,350	68.0%	\$ 130,347	51.8%	\$ 12.41	\$ 11,135

1 Retail anchor tenants are defined as tenants that occupy 10,000 square feet or more.

2 Lease expiration table reflects rents in place as of December 31, 2017 and does not include option periods.

3 Expiring GLA excludes square footage for non-owned ground lease structures on land we own and ground leased to tenants.

4 Annualized base rent represents the monthly contractual rent for December 2017 for each applicable tenant multiplied by 12. Excludes tenant reimbursements and ground lease revenue.

LEASE EXPIRATION TABLE – RETAIL SHOPS

(\$ in thousands, except per square foot data)

	Number of Expiring Leases ¹	Expiring GLA/NRA ²	% of Total GLA/NRA Expiring	Expiring Annualized Base Rent ³	% of Total Annualized Base Rent	Expiring Annualized Base Rent per Sq. Ft.	Expiring Ground Lease Revenue
2018	199	474,533	3.1%	\$ 12,260	4.9%	\$ 25.84	\$ 68
2019	219	583,160	3.8%	14,335	5.7%	24.58	653
2020	214	526,488	3.4%	12,667	5.0%	24.06	481
2021	254	658,665	4.3%	16,570	6.6%	25.16	593
2022	256	667,764	4.3%	17,302	6.9%	25.91	495
2023	176	521,876	3.4%	13,038	5.2%	24.98	525
2024	77	234,999	1.5%	6,197	2.5%	26.37	288
2025	58	178,174	1.2%	5,074	2.0%	28.48	425
2026	64	255,030	1.7%	6,320	2.5%	24.78	570
2027	62	213,946	1.4%	5,562	2.2%	26.00	358
Beyond	55	211,187	1.4%	5,550	2.2%	26.28	4,301
	1,634	4,525,822	29.3%	\$ 114,874	45.6%	\$ 25.38	\$ 8,757

- 1 Lease expiration table reflects rents in place as of December 31, 2017, and does not include option periods; 2018 expirations include 15 month-to-month tenants. This column also excludes ground leases.
- 2 Expiring GLA excludes estimated square footage attributable to non-owned structures on land we own and ground leased to tenants.
- 3 Annualized base rent represents the monthly contractual rent for December 2017 for each applicable tenant multiplied by 12. Excludes tenant reimbursements and ground lease revenue.

LEASE EXPIRATION TABLE – OFFICE TENANTS

(\$ in thousands, except per square foot data)

	Number of Expiring Leases ¹	Expiring GLA/NRA ¹	% of Total GLA/NRA Expiring	Expiring Annualized Base Rent ²	% of Total Annualized Base Rent	Expiring Annualized Base Rent per Sq. Ft.
2018	1	10,798	0.1%	\$ 246	0.1%	\$ 22.81
2019	1	5,253	—%	101	—%	19.25
2020	2	13,311	0.1%	256	0.1%	19.25
2021	3	8,999	0.1%	229	0.1%	25.49
2022	5	65,020	0.4%	1,263	0.5%	19.43
2023	5	149,848	1.0%	1,466	0.6%	9.79
2024 ³	3	74,226	0.5%	1,201	0.5%	16.19
2025	4	86,679	0.6%	1,418	0.6%	16.36
2026	—	—	—%	—	—%	—
2027	1	9,154	0.1%	270	0.1%	29.50
Beyond	—	—	—%	—	—%	—
	25	423,288	2.7%	\$ 6,452	2.6%	\$ 15.24

- 1 Lease expiration table reflects rents in place as of December 31, 2017 and does not include option periods. This column also excludes ground leases.
- 2 Annualized base rent represents the monthly contractual rent for December 2017 for each applicable tenant multiplied by 12. Excludes tenant reimbursements.
- 3 Expiring annualized base rent includes \$0.7 million from Kite Realty Group and subsidiaries.

Lease Activity – New and Renewal

In 2017, the Company executed new and renewal leases on 393 individual spaces totaling 2,311,632 square feet. New leases were signed on 170 individual spaces for 521,621 square feet of GLA, while renewal leases were signed on 223 individual spaces for 1,790,011 square feet of GLA.

For comparable signed leases, which are defined as leases signed for which there was a former tenant within the last 12 months, we achieved a blended rent spread of 9.0% while incurring \$8.80 per square foot of incremental capital improvement costs. The average rents for the 75 new comparable leases that were signed on individual spaces in 2017 were \$21.44 per square foot compared to average expiring rents of \$17.43 per square foot. The average rents for the 223 renewals signed on individual spaces in 2017 were \$16.81 per square foot compared to average expiring rents of \$15.77 per square foot. Further, average leasing costs for new comparable leases signed in 2017 were \$55.29 per square foot, while there were minimal leasing costs incurred for renewal leases.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common shares are currently listed and traded on the NYSE under the symbol "KRG." On February 16, 2018, the closing price of our common shares on the NYSE was \$15.48.

The following table sets forth, for the periods indicated, the high and low prices for our common shares:

Quarter Ended December 31, 2017	\$	20.71	\$	18.10
Quarter Ended September 30, 2017	\$	21.57	\$	18.16
Quarter Ended June 30, 2017	\$	22.34	\$	17.60
Quarter Ended March 31, 2017	\$	24.52	\$	19.91
Quarter Ended December 31, 2016	\$	27.69	\$	22.50
Quarter Ended September 30, 2016	\$	30.45	\$	27.04
Quarter Ended June 30, 2016	\$	30.00	\$	25.58
Quarter Ended March 31, 2016	\$	28.32	\$	23.75

*Holder*s

The number of registered holders of record of our common shares was 1,274 as of February 16, 2018. This total excludes beneficial or non-registered holders that held their shares through various brokerage firms. This figure does not represent the actual number of beneficial owners of our common shares because our common shares are frequently held in "street name" by securities dealers and others for the benefit of beneficial owners who may vote the shares.

Distributions

Our Board of Trustees declared the following cash distributions per share to our common shareholders for the periods indicated:

Quarter	Record Date	Distribution Per Share	Payment Date
4 th 2017	January 5, 2018	\$ 0.3175	January 12, 2018
3 rd 2017	October 6, 2017	\$ 0.3025	October 13, 2017
2 nd 2017	July 6, 2017	\$ 0.3025	July 13, 2017
1 st 2017	April 6, 2017	\$ 0.3025	April 13, 2017
4 th 2016	January 6, 2017	\$ 0.3025	January 13, 2017
3 rd 2016	October 6, 2016	\$ 0.2875	October 13, 2016
2 nd 2016	July 7, 2016	\$ 0.2875	July 14, 2016
1 st 2016	April 6, 2016	\$ 0.2875	April 13, 2016

Our management and Board of Trustees will continue to evaluate our distribution policy on a quarterly basis as they monitor the capital markets and the impact of the economy on our operations.

Future distributions, if any, will be declared and paid at the discretion of our Board of Trustees and will depend upon a number of factors, including cash generated by operating activities, our financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Code, and such other factors as our Board of Trustees deem relevant.

Distributions by us to the extent of our current and accumulated earnings and profits for federal income tax purposes will be taxable to shareholders as either ordinary dividend income or capital gain income if so declared by us. Distributions in excess of taxable earnings and profits generally will be treated as a non-taxable return of capital. These distributions, to the extent that they do not exceed the shareholder's adjusted tax basis in its common shares, have the effect of deferring taxation until the sale of a shareholder's common shares. To the extent that distributions are both in excess of taxable earnings and profits and in excess of the shareholder's adjusted tax basis in its common shares, the distribution will be treated as gain from the sale of common shares. In order to maintain our qualification as a REIT, we must make annual distributions to shareholders of at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains) and we must make distributions to shareholders equal to 100% of our net taxable income to eliminate federal income tax liability. Under certain circumstances, we could be required to make distributions in excess of cash available for distributions in order to meet such requirements. For the taxable year ended December 31, 2017, approximately 24% of our distributions to shareholders constituted a return of capital, approximately 65% constituted taxable ordinary income dividends and approximately 11% constituted taxable capital gains.

Under our unsecured revolving credit facility, we are permitted to make distributions to our shareholders that do not exceed 95% of our Funds From Operations ("FFO") provided that no event of default exists. If an event of default exists, we may only make distributions sufficient to maintain our REIT status. However, we may not make any distributions if any event of default resulting from nonpayment or bankruptcy exists, or if our obligations under the unsecured revolving credit facility are accelerated.

Issuer Repurchases; Unregistered Sales of Securities

During the three months ended December 31, 2017, we did not repurchase any of our common shares, and none of our employees surrendered common shares owned by them to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted common shares of beneficial interest issued under our 2013 Equity Incentive Plan. We did not sell any unregistered securities during 2017.

Issuances Under Equity Compensation Plans

For information regarding the securities authorized for issuance under our equity compensation plans, see Item 12 of this Annual Report on Form 10-K.

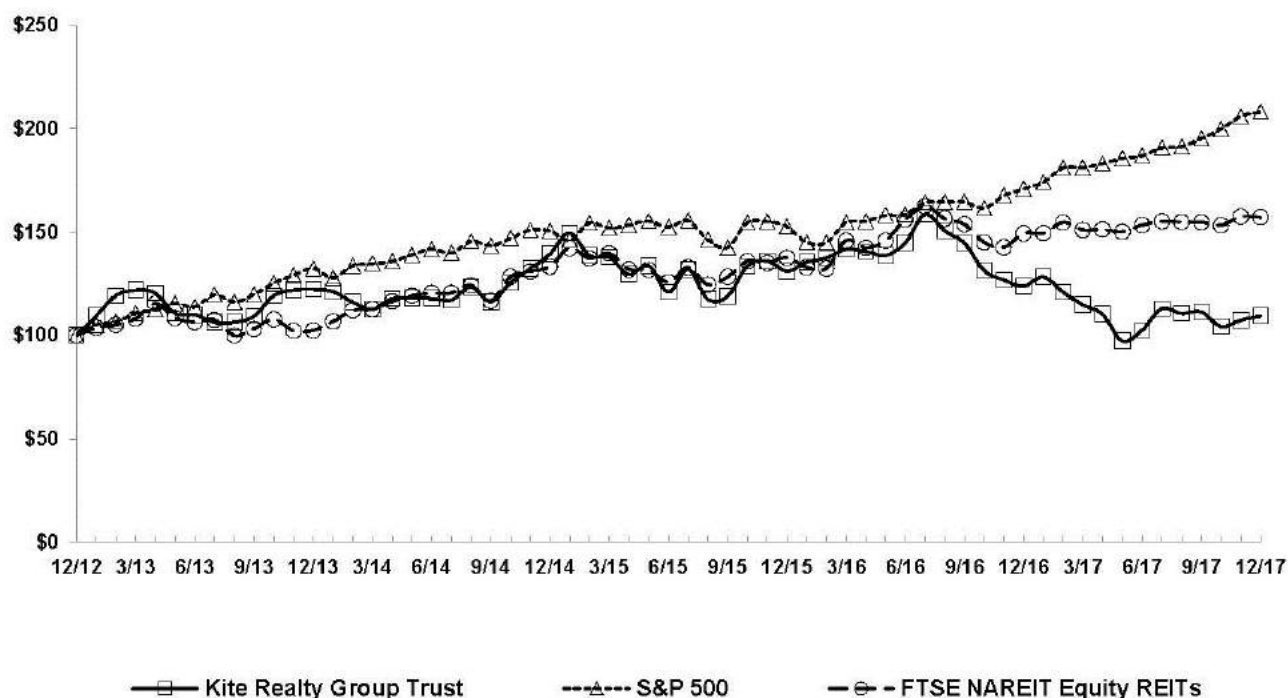
Performance Graph

Notwithstanding anything to the contrary set forth in any of our filings under the Securities Act or the Exchange Act that might incorporate SEC filings, in whole or in part, the following performance graph will not be incorporated by reference into any such filings.

The following graph compares the cumulative total shareholder return of our common shares for the period from December 31, 2012 to December 31, 2017, to the S&P 500 Index and to the published NAREIT All Equity REIT Index over the same period. The graph assumes that the value of the investment in our common shares and each index was \$100 at December 31, 2012 and that all cash distributions were reinvested. The shareholder return shown on the graph below is not indicative of future performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Kite Realty Group Trust, the S&P 500 Index
and the FTSE NAREIT Equity REITs Index



*\$100 invested on 12/31/12 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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	12/12	6/13	12/13	6/14	12/14	6/15	12/15	6/16	12/16	6/17	12/17
Kite Realty Group Trust	100.00	110.04	122.30	117.86	139.42	120.94	131.06	144.71	123.78	102.51	109.41
S&P 500	100.00	113.82	132.39	141.84	150.51	152.36	152.59	158.45	170.84	186.80	208.14
FTSE NAREIT Equity REITs	100.00	106.49	102.47	120.56	133.35	125.78	137.61	156.02	149.33	153.37	157.14

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth, on a historical basis, selected unaudited financial and operating information. The financial information has been derived from our consolidated balance sheets and statements of operations. The share and per share information has been restated for the effects of our one-for-four reverse share split that occurred in August 2014. This information should be read in conjunction with our audited consolidated financial statements and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Annual Report on Form 10-K.

(\$ in thousands, except per share data)

	Year Ended December 31 (Unaudited)				
	2017 ¹	2016 ²	2015 ³	2014 ⁴	2013 ⁵
Operating Data:					
Revenues:					
Rental related revenue	\$ 358,442	\$ 354,122	\$ 347,005	\$ 259,528	\$ 129,488
Fee income	377	—	—	—	—
Total revenues	358,819	354,122	347,005	259,528	129,488
Expenses:					
Property operating	49,643	47,923	49,973	38,703	21,729
Real estate taxes	43,180	42,838	40,904	29,947	15,263
General, administrative, and other	21,749	20,603	18,709	13,043	8,211
Transaction costs	—	2,771	1,550	27,508	2,214
Non-cash gain from release of assumed earnout liability	—	—	(4,832)	—	—
Impairment charge	7,411	—	1,592	—	—
Depreciation and amortization	172,091	174,564	167,312	120,998	54,479
Total expenses	294,074	288,699	275,208	230,199	101,896
Operating income	64,745	65,423	71,797	29,329	27,592
Interest expense	(65,702)	(65,577)	(56,432)	(45,513)	(27,994)
Income tax benefit (expense) of taxable REIT subsidiary	100	(814)	(186)	(24)	(262)
Non-cash gain on debt extinguishment	—	—	5,645	—	—
Gain on settlement	—	—	4,520	—	—
Other expense, net	(415)	(169)	(95)	(244)	(62)
(Loss) income from continuing operations	(1,272)	(1,137)	25,249	(16,452)	(726)
Discontinued operations:					
Income from operations, excluding impairment charge	—	—	—	—	834
Impairment charge	—	—	—	—	(5,372)
Non-cash gain on debt extinguishment	—	—	—	—	1,242
Gains on sale of operating properties	—	—	—	3,198	487
Income (loss) from discontinued operations	—	—	—	3,198	(2,809)
(Loss) income before gain on sale of operating properties	(1,272)	(1,137)	25,249	(13,254)	(3,535)
Gains on sale of operating properties, net	15,160	4,253	4,066	8,578	—
Consolidated net income (loss)	13,888	3,116	29,315	(4,676)	(3,535)
Net (income) loss attributable to noncontrolling interests:	(2,014)	(1,933)	(2,198)	(1,025)	685
Net income (loss) attributable to Kite Realty Group Trust:	11,874	1,183	27,117	(5,701)	(2,850)
Dividends on preferred shares	—	—	(7,877)	(8,456)	(8,456)
Non-cash adjustment for redemption of preferred shares	—	—	(3,797)	—	—
Net income (loss) attributable to common shareholders	\$ 11,874	\$ 1,183	\$ 15,443	\$ (14,157)	\$ (11,306)
Income (loss) per common share – basic:					
Income (loss) from continuing operations attributable to Kite Realty Group Trust common shareholders	\$ 0.14	\$ 0.01	\$ 0.19	\$ (0.29)	\$ (0.37)
Income (loss) from discontinued operations attributable to Kite Realty Group Trust common shareholders	—	—	—	0.05	(0.11)
Net income (loss) attributable to Kite Realty Group Trust common shareholders	\$ 0.14	\$ 0.01	\$ 0.19	\$ (0.24)	\$ (0.48)
Income (loss) per common share – diluted:					
Income (loss) from continuing operations attributable to Kite Realty Group Trust common shareholders	\$ 0.14	\$ 0.01	\$ 0.18	\$ (0.29)	\$ (0.37)
Income (loss) from discontinued operations attributable to Kite Realty Group Trust common shareholders	—	—	—	0.05	(0.11)
Net income (loss) attributable to Kite Realty Group Trust common shareholders	\$ 0.14	\$ 0.01	\$ 0.18	\$ (0.24)	\$ (0.48)
Weighted average Common Shares outstanding – basic	83,585,333	83,436,511	83,421,904	58,353,448	23,535,434
Weighted average Common Shares outstanding – diluted	83,690,418	83,465,500	83,534,381	58,353,448	23,535,434
Distributions declared per Common Share	\$ 1.2250	\$ 1.1700	\$ 1.0900	\$ 1.0200	\$ 0.9600
Net income (loss) attributable to Kite Realty Group Trust common shareholders:					
Income (loss) from continuing operations ⁶	\$ 11,874	\$ 1,183	\$ 15,443	\$ (17,268)	\$ (8,686)
Income (loss) from discontinued operations	—	—	—	3,111	(2,620)
Net income (loss) attributable to Kite Realty Group Trust common shareholders	\$ 11,874	\$ 1,183	\$ 15,443	\$ (14,157)	\$ (11,306)

- 1 In 2017, we disposed of four operating properties. The operations of these properties are not reflected as discontinued operations as none of the disposals individually, nor in the aggregate, represent a strategic shift that has or will have a major effect on our operations and financial results.
- 2 In 2016, we disposed of two operating properties. The operations of these properties are not reflected as discontinued operations as none of the disposals individually, nor in the aggregate, represent a strategic shift that has or will have a major effect on our operations and financial results.
- 3 In 2015, we disposed of nine operating properties. The operations of these properties are not reflected as discontinued operations as none of the disposals individually, nor in the aggregate, represent a strategic shift that has or will have a major effect on our operations and financial results.
- 4 In 2014, we disposed of a number of operating properties. Of our 2014 disposals, the only property's operations reflected as discontinued operations for each of the years presented is 50th and 12th, as the other disposals individually or in the aggregate did not represent a strategic shift that has or will have a major effect on our operations and financial results. Further, the 50th and 12th operating property is included in discontinued operations, as the property was classified as held for sale as of December 31, 2013.
- 5 In 2013, we disposed of the following properties: Cedar Hill Village and Kedron Village. The operations of these properties are reflected as discontinued operations for each of the years presented above.
- 6 Includes gain on sale of operating properties and preferred dividends.

(\$ in thousands)

	As of December 31				
	2017	2016	2015	2014	2013
Balance Sheet Data (Unaudited):					
Investment properties, net	\$ 3,293,270	\$ 3,435,382	\$ 3,500,845	\$ 3,417,655	\$ 1,644,478
Cash and cash equivalents	24,082	19,874	33,880	43,826	18,134
Assets held for sale	—	—	—	179,642	—
Total assets	3,512,498	3,656,371	3,756,428	3,866,413	1,758,179
Mortgage and other indebtedness	1,699,239	1,731,074	1,724,449	1,546,460	851,396
Liabilities held for sale	—	—	—	81,164	—
Total liabilities	1,874,285	1,923,940	1,937,364	1,839,183	957,146
Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests	72,104	88,165	92,315	125,082	43,928
Kite Realty Group Trust shareholders' equity	1,565,411	1,643,574	1,725,976	1,898,784	753,557
Noncontrolling interests	698	692	773	3,364	3,548
Total liabilities and equity	3,512,498	3,656,371	3,756,428	3,866,413	1,758,179

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and related notes thereto and Item 1A, "Risk Factors," appearing elsewhere in this Annual Report on Form 10-K. In this discussion, unless the context suggests otherwise, references to "our Company," "we," "us," and "our" mean Kite Realty Group Trust and its direct and indirect subsidiaries, including Kite Realty Group, L.P.

Overview

In the following overview, we discuss, among other things, the status of our business and properties, the effect that current United States economic conditions is having on our retail tenants and us, and the current state of the financial markets and how it impacts our financing strategy.

Our Business and Properties

Kite Realty Group Trust is a publicly-held real estate investment trust which, through its majority-owned subsidiary, Kite Realty Group, L.P., owns interests in various operating subsidiaries and joint ventures engaged in the ownership, operation, acquisition, development, and redevelopment of high-quality neighborhood and community shopping centers in selected markets

in the United States. We derive revenues primarily from activities associated with the collection of contractual rents and reimbursement payments from tenants at our properties. Our operating results therefore depend materially on, among other things, the ability of our tenants to make required lease payments, the health and resilience of the United States retail sector, interest rate volatility, job growth and overall economic and real estate market conditions.

As of December 31, 2017, we owned interests in 117 operating and redevelopment properties totaling approximately 23.3 million square feet. We also owned two development projects under construction as of this date.

Portfolio Update

In evaluating acquisition, development, and redevelopment opportunities, we look for strong sub-markets where average household income is above the broader market average. We also focus on locations with population density, high traffic counts, and strong daytime workforce populations. Household incomes in our largest sub-markets are significantly higher than the medians for those broader markets.

In 2017, we transitioned the Parkside Town Commons – Phase II development project to the operating portfolio. We completed construction on our expansion of Holly Springs Towne Center – Phase II and began construction on Eddy Street Commons – Phase II, which includes an Embassy Suites hotel. The hotel is owned by a unconsolidated joint venture in which we own a 35% interest. Our 3-R initiative, which includes a total of 11 existing and potential projects, continued to progress in 2017. Seven of these projects are under construction with total estimated costs of \$71 million to \$77 million and estimated combined returns of 8% to 9%. There are four additional potential projects with estimated costs of \$40 million to \$56 million and potential estimated returns of 9.0% to 11.0%. We completed construction on seven 3-R projects in 2017: Bolton Plaza, Castleton Crossing, Centennial Gateway, Market Street Village, Northdale Promenade, Portofino Shopping Center, and Trussville Promenade with total costs of \$23.5 million and an estimated combined return of 12.3%.

In addition to targeting sub-markets with strong consumer demographics, we focus on having the most desirable tenant mix at each center. We have aggressively targeted and executed leases with notable grocers including Kroger, Aldi, Publix and Trader Joe's, expanding discount retailers such as Hobby Lobby, Marshalls and Ross Dress for Less, service and restaurant retailers such as Starbucks, North Italia and Flower Child and other retailers such as Ulta, Party City and Tempurpedic. Additionally, we have identified cost-efficient ways to relocate, re-tenant and renegotiate leases at several of our properties allowing us to attract more suitable tenants. In addition, many of our redevelopment and 3-R projects include consolidating small shop space to accommodate construction of new junior anchor space.

Capital and Financing Activities

Our ability to obtain capital on satisfactory terms and to refinance borrowings as they mature is affected by the condition of the economy in general and by the financial strength of properties securing borrowings.

Throughout 2017, we were able to maintain our strong balance sheet, financial flexibility and liquidity to fund future growth. We ended the year with approximately \$398 million of combined cash and borrowing capacity on our unsecured revolving credit facility. In addition, as of December 31, 2017, we have approximately \$82.4 million of debt maturities through December 31, 2020.

The amount that we may borrow under our unsecured revolving credit facility is limited by the value of the assets in our unencumbered asset pool. As of December 31, 2017, the value of the assets in our unencumbered asset pool was \$1.4 billion.

The investment grade credit ratings we have received provide us with access to the unsecured public bond market, which we may continue to use in the future to finance acquisition activity, repay maturing debt and fix interest rates.

Summary of Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 2 to the accompanying consolidated financial statements. As disclosed in Note 2, the preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the compilation of our financial condition and results of operations and require management's most difficult, subjective, and complex judgments.

Valuation of Investment Properties

Management reviews operational and development projects, land parcels and intangible assets for impairment on at least a quarterly basis or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The review for possible impairment requires management to make certain assumptions and estimates and requires significant judgment. Impairment losses for investment properties and intangible assets are measured when the undiscounted cash flows estimated to be generated by the investment properties during the expected holding period are less than the carrying amounts of those assets. Impairment losses are recorded as the excess of the carrying value over the estimated fair value of the asset. Our impairment review for land and development properties assumes we have the intent and the ability to complete the developments or projected uses for the land parcels. If we determine those plans will not be completed or our assumptions with respect to operating assets are not realized, an impairment loss may be appropriate.

Depreciation may be accelerated for a redevelopment project, including partial demolition of existing structures after the asset is assessed for impairment.

Operating properties will be classified as held for sale only when those properties are available for immediate sale in their present condition and for which management believes it is probable that a sale of the property will be completed within one year, among other factors. Operating properties classified as held for sale are carried at the lower of cost or fair value less estimated costs to sell. Depreciation and amortization are suspended during the held-for-sale period.

Our operating properties have operations and cash flows that can be clearly distinguished from the rest of our activities. Historically, the operations reported in discontinued operations include those operating properties that were sold or were considered held for sale and for which operations and cash flows can be clearly distinguished. The operations from these properties are eliminated from ongoing operations, and we will not have a continuing involvement after disposition. In 2014, we adopted the provisions of ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which will result in fewer real estate sales being classified within discontinued operations, as only disposals representing a strategic shift in operations will be presented as discontinued operations. No properties that have been sold, or designated as held-for-sale, since the adoption of ASU 2014-08, have met the revised criteria for classification within discontinued operations.

Acquisition of Real Estate Investments

Upon acquisition of real estate operating properties, we estimate the fair value of acquired identifiable tangible assets and identified intangible assets and liabilities, assumed debt, and any noncontrolling interest in the acquiree at the date of acquisition, based on evaluation of information and estimates available at that date. Based on these estimates, we record the estimated fair value to the applicable assets and liabilities. In making estimates of fair values, a number of sources are utilized, including information obtained as a result of pre-acquisition due diligence, marketing and leasing activities. The estimates of fair value were determined to have primarily relied upon Level 2 and Level 3 inputs, as defined below.

Fair value is determined for tangible assets and intangibles, including:

- the fair value of the building on an as-if-vacant basis and the fair value of land determined either by comparable market data, real estate tax assessments, independent appraisals or other relevant data;

- above-market and below-market in-place lease values for acquired properties, which are based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the leases. Any below-market renewal options are also considered in the in-place lease values. The capitalized above-market and below-market lease values are amortized as a reduction of or addition to rental income over the term of the lease. Should a tenant vacate, terminate its lease, or otherwise notify us of its intent to do so, the unamortized portion of the lease intangibles would be charged or credited to income;
- the value of having a lease in place at the acquisition date. We utilize independent and internal sources for our estimates to determine the respective in-place lease values. Our estimates of value are made using methods similar to those used by independent appraisers. Factors we consider in our analysis include an estimate of costs to execute similar leases including tenant improvements, leasing commissions and foregone costs and rent received during the estimated lease-up period as if the space was vacant. The value of in-place leases is amortized to expense over the remaining initial terms of the respective leases; and
- the fair value of any assumed financing that is determined to be above or below market terms. We utilize third party and independent sources for our estimates to determine the respective fair value of each mortgage payable. The fair market value of each mortgage payable is amortized to interest expense over the remaining initial terms of the respective loan.

We also consider whether there is any value to in-place leases that have a related customer relationship intangible value. Characteristics we consider in determining these values include the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality, and expectations of lease renewals, among other factors. To date, a tenant relationship has not been developed that is considered to have a current intangible value.

We finalize the measurement period of our business combinations when all facts and circumstances are understood, but in no circumstances will the measurement period exceed one year.

Revenue Recognition

As a lessor of real estate assets, the Company retains substantially all of the risks and benefits of ownership and accounts for its leases as operating leases.

Contractual rent, percentage rent, and expense reimbursements from tenants for common area maintenance costs, insurance and real estate taxes are our principal sources of revenue. Base minimum rents are recognized on a straight-line basis over the terms of the respective leases. Certain lease agreements contain provisions that grant additional rents based on a tenant's sales volume (contingent overage rent). Overage rent is recognized when tenants achieve the specified sales targets as defined in their lease agreements. Overage rent is included in other property related revenue in the accompanying consolidated statements of operations. As a result of generating this revenue, we will routinely have accounts receivable due from tenants. We are subject to tenant defaults and bankruptcies that may affect the collection of outstanding receivables. To address the collectability of these receivables, we analyze historical write-off experience, tenant credit-worthiness and current economic trends when evaluating the adequacy of our allowance for uncollectible accounts and straight line rent reserve. Although we estimate uncollectible receivables and provide for them through charges against income, actual experience may differ from those estimates.

Gains or losses from sales of real estate have historically been recognized when a sale has been consummated, the buyer's initial and continuing investment is adequate to demonstrate a commitment to pay for the asset, we have transferred to the buyer the usual risks and rewards of ownership, and we do not have a substantial continuing financial involvement in the property. As part of our ongoing business strategy, we will, from time to time, sell land parcels and outlots, some of which are ground leased to tenants.

Fair Value Measurements

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

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

- Level 1 fair value inputs are quoted prices in active markets for identical instruments to which we have access.
- Level 2 fair value inputs are inputs other than quoted prices included in Level 1 that are observable for similar instruments, either directly or indirectly, and appropriately consider counterparty creditworthiness in the valuations.
- Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an instrument at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. As discussed in Note 10 to the Financial Statements, we have determined that derivative valuations are classified in Level 2 of the fair value hierarchy.

Cash and cash equivalents, accounts receivable, escrows and deposits, and other working capital balances approximate fair value.

Note 7 to the Financial Statements includes a discussion of the fair values recorded for assets acquired and liabilities assumed. Note 8 to the Financial Statements includes a discussion of the fair values recorded when we recognized impairment charges in 2017 and 2015. Level 3 inputs to these transactions include our estimations of market leasing rates, tenant-related costs, discount rates, and disposal values.

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 taxable REIT subsidiary.

Inflation

Inflation rates have been near historical lows in recent years and, therefore, have not had a significant impact on our results of operations. Most of our leases contain provisions designed to mitigate the adverse impact of inflation by requiring the tenant to pay its share of operating expenses, including common area maintenance, real estate taxes and insurance, or include a fixed amount for these costs that escalates over time, thereby reducing our exposure to increases in operating expenses resulting from inflation. Also, most of our leases have original terms of fewer than ten years, which enables us to adjust rental rates to market upon lease renewal.

Results of Operations

As of December 31, 2017, we owned interests in 117 operating and redevelopment properties and two development projects currently under construction. The following table sets forth the total operating and redevelopment properties and development projects that we owned as of December 31, 2017, 2016 and 2015:

	# of Properties		
	2017	2016	2015
Operating Retail Properties	105	108	110
Operating Office Properties and Other	4	2	2
Redevelopment Properties	8	9	6
Total Operating and Redevelopment Properties	<u>117</u>	<u>119</u>	<u>118</u>
Development Projects:	2	2	3
Total All Properties	<u>119</u>	<u>121</u>	<u>121</u>

The comparability of results of operations is affected by our development, redevelopment, and operating property acquisition and disposition activities in 2015 through 2017. Therefore, we believe it is most useful to review the comparisons of our results of operations for these years (as set forth below under “Comparison of Operating Results for the Years Ended December 31, 2017 and 2016” and “Comparison of Operating Results for the Years Ended December 31, 2016 and 2015”) in conjunction with the discussion of these activities during those periods, which is set forth below.

Property Acquisition Activities

During the three years ended December 31, 2017, we acquired the properties listed in the table below.

Property Name	MSA	Acquisition Date	Owned GLA
Colleyville Downs	Dallas, TX	April 2015	190,895
Belle Isle Station	Oklahoma City, OK	May 2015	164,407
Livingston Shopping Center	New York - Newark	July 2015	139,559
Chapel Hill Shopping Center	Fort Worth / Dallas, TX	August 2015	126,989

Operating Property Disposition Activities

During the three years ended December 31, 2017, we sold the operating properties listed in the table below.

Property Name	MSA	Disposition Date	Owned GLA
Sale of seven operating properties	Various	March 2015	740,034
Cornelius Gateway	Portland, OR	December 2015	21,326
Four Corner Square	Seattle, WA	December 2015	107,998
Shops at Otty	Portland, OR	June 2016	9,845
Publix at St. Cloud	St. Cloud, FL	December 2016	78,820
Cove Center	Stuart, FL	March 2017	155,063
Clay Marketplace	Birmingham, AL	June 2017	63,107
The Shops at Village Walk	Fort Myers, FL	June 2017	78,533
Wheatland Towne Crossing	Dallas, TX	June 2017	194,727

Development Activities

During the three years ended December 31, 2017, the following development properties became operational and were transferred to the operating portfolio:

Property Name	MSA	Transition to Operating Portfolio	Owned GLA
Tamiami Crossing	Naples, FL	June 2016	121,705
Holly Springs Towne Center – Phase II	Raleigh, NC	June 2016	145,009
Parkside Town Commons – Phase II	Raleigh, NC	June 2017	152,460

Redevelopment Activities

During portions of the three years ended December 31, 2017, the following properties were under active redevelopment and removed from our operating portfolio:

Property Name	MSA	Transition to Redevelopment¹	Transition to Operating Portfolio	Owned GLA
Gainesville Plaza	Gainesville, FL	June 2013	December 2015	162,309
Cool Springs Market	Nashville, TN	July 2015	December 2015	230,980
Courthouse Shadows ²	Naples, FL	June 2013	Pending	124,802
Hamilton Crossing Centre ²	Indianapolis, IN	June 2014	Pending	89,983
City Center ²	White Plains, NY	December 2015	Pending	361,618
Fishers Station ²	Indianapolis, IN	December 2015	Pending	52,544
Beechwood Promenade ²	Athens, GA	December 2015	Pending	331,198
The Corner ²	Indianapolis, IN	December 2015	Pending	27,731
Rampart Commons ²	Las Vegas, NV	March 2016	Pending	79,455
Northdale Promenade ³	Tampa, FL	March 2016	June 2017	173,862
Burnt Store ²	Punta Gorda, FL	June 2016	Pending	95,795

- 1 Transition date represents the date the property was transferred from our operating portfolio into redevelopment status.
- 2 This property has been identified as a redevelopment property and is not included in the operating portfolio or the same property pool.
- 3 This property was transitioned to the operating portfolio in the second quarter of 2017; however, it remains excluded from the same property pool because it has not been in the operating portfolio four full quarters after the property was transitioned to operations.

Net Operating Income and Same Property Net Operating Income

We use property net operating income (“NOI”), a non-GAAP financial measure, to evaluate the performance of our properties. We define NOI as income from our real estate, including lease termination fees received from tenants, less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions and certain corporate level expenses. We believe that NOI is helpful to investors as a measure of our operating performance because it excludes various items included in net income that do not relate to or are not indicative of our operating performance, such as depreciation and amortization, interest expense, and impairment, if any.

We also use same property NOI (“Same Property NOI”), a non-GAAP financial measure, to evaluate the performance of our retail properties. Same Property NOI excludes properties that have not been owned for the full period presented. It also excludes net gains from outlot sales, straight-line rent revenue, provision for credit losses, net of recoveries, lease termination fees, amortization of lease intangibles and significant prior period expense recoveries and adjustments, if any. We believe that Same Property NOI is helpful to investors as a measure of our operating performance because it includes only the NOI of properties that have been owned for the full period presented, which eliminates disparities in net income due to the acquisition or disposition of properties during the particular period presented and thus provides a more consistent metric for the comparison of our properties. Full year Same Property NOI represents the sum of the four quarters, as reported.

NOI and Same Property NOI should not, however, be considered as alternatives to net income (calculated in accordance with GAAP) as indicators of our financial performance. Our computation of NOI and Same Property NOI may differ from the methodology used by other REITs, and therefore may not be comparable to such other REITs.

When evaluating the properties that are included in the same property pool, we have established specific criteria for determining the inclusion of properties acquired or those recently under development. An acquired property is included in the same property pool when there is a full quarter of operations in both years subsequent to the acquisition date. Development and redevelopment properties are included in the same property pool four full quarters after the properties have been transferred to the operating portfolio. A redevelopment property is first excluded from the same property pool when the

execution of a redevelopment plan is likely and we begin recapturing space from tenants. At December 31, 2017, same property pool excluded eight properties in redevelopment, a recently completed redevelopment, and two office properties.

The following table reflects Same Property NOI¹ and a reconciliation to net income attributable to common shareholders for the years ended December 31, 2017 and 2016 (unaudited):

(\$ in thousands)	Years Ended December 31,		
	2017	2016	% Change
Leased percentage at period end	94.6%	95.3%	
Economic Occupancy percentage²	93.6%	93.0%	
Same Property NOI³	\$ 222,267	\$ 216,097	2.9%
Same Property NOI - excluding the impact of the 3-R initiative			3.2%

Reconciliation of Same Property NOI to Most Directly Comparable GAAP Measure:

Net operating income - same properties	\$ 222,267	\$ 216,097
Net operating income - non-same activity ⁴	46,156	49,078
Provision for credit losses, net of recoveries - same properties	(2,427)	(1,814)
Other expense, net	(315)	(983)
General, administrative and other	(21,749)	(20,603)
Transaction costs	—	(2,771)
Impairment charge	(7,411)	—
Depreciation and amortization expense	(172,091)	(174,564)
Interest expense	(65,702)	(65,577)
Gains on sales of operating properties	15,160	4,253
Net income attributable to noncontrolling interests	(2,014)	(1,933)
Net income attributable to common shareholders	<u>\$ 11,874</u>	<u>\$ 1,183</u>

- 1 Same Property NOI excludes eight properties in redevelopment, the recently completed Northdale Promenade redevelopment as well as office properties (Thirty South Meridian and Eddy Street Commons).
- 2 Excludes leases that are signed but for which tenants have not yet commenced the payment of cash rent. Calculated as a weighted average based on the timing of cash rent commencement and expiration during the period.
- 3 Same Property NOI excludes net gains from outlot sales, straight-line rent revenue, provision for credit losses, net of recoveries, lease termination fees, amortization of lease intangibles and significant prior period expense recoveries and adjustments, if any.
- 4 Includes non-cash activity across the portfolio as well as net operating income (including provision for credit losses, net of recoveries) from properties not included in the same property pool.

Our Same Property NOI increased 2.9% in 2017 compared to 2016. This increase was primarily due to increases in rental rates, increase in economic occupancy, and improved expense control and operating expense recoveries..

Funds From Operations

Funds from Operations ("FFO") is a widely used performance measure for real estate companies and is provided here as a supplemental measure of operating performance. We calculate FFO, a non-GAAP financial measure, in accordance with the

best practices described in the April 2002 National Policy Bulletin of the National Association of Real Estate Investment Trusts ("NAREIT"). The NAREIT white paper defines FFO as net income (determined in accordance with GAAP), excluding gains (or losses) from sales and impairments of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

Considering the nature of our business as a real estate owner and operator, we believe that FFO is helpful to investors in measuring our operational performance because it excludes various items included in net income that do not relate to or are not indicative of our operating performance, such as gains or losses from sales of depreciated property and depreciation and amortization, which can make periodic and peer analyses of operating performance more difficult. For informational purposes, we have also provided FFO adjusted for accelerated amortization of debt issuance costs, transaction costs, a severance charge and a debt extinguishment loss in 2016. We believe this supplemental information provides a meaningful measure of our operating performance. We believe our presentation of FFO, as adjusted, provides investors with another financial measure that may facilitate comparison of operating performance between periods and among our peer companies. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our financial performance, is not an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, and is not indicative of funds available to satisfy our cash needs, including our ability to make distributions. Our computation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do.

Our calculations of FFO¹ and reconciliation to consolidated net income and FFO, as adjusted for the years ended December 31, 2017, 2016 and 2015 (unaudited) are as follows:

(\$ in thousands)	Years Ended December 31,		
	2017	2016	2015
Consolidated net income	\$ 13,888	\$ 3,116	\$ 29,315
Less: cash dividends on preferred shares	—	—	(7,877)
Less: non-cash adjustment for redemption of preferred shares	—	—	(3,797)
Less: net income attributable to noncontrolling interests in properties	(1,731)	(1,844)	(1,854)
Less: gains on sales of operating properties	(15,160)	(4,253)	(4,066)
Add: impairment charge	7,411	—	1,592
Add: depreciation and amortization of consolidated entities, net of noncontrolling interests	170,315	173,578	166,509
FFO of the Operating Partnership ¹	174,723	170,597	179,822
Less: Limited Partners' interests in FFO	(3,966)	(3,872)	(3,789)
FFO attributable to Kite Realty Group Trust common shareholders ¹	\$ 170,757	\$ 166,725	\$ 176,033
FFO of the Operating Partnership ¹	\$ 174,723	\$ 170,597	\$ 179,822
Less: gain on settlement	—	—	(4,520)
Add: accelerated amortization of debt issuance costs (non-cash)	—	1,121	—
Add: transaction costs	—	2,771	1,550
Add: severance charge	—	500	—
Add: adjustment for redemption of preferred shares (non-cash)	—	—	3,797
Less: gain from release of assumed earnout liability (non-cash)	—	—	(4,832)
Add: loss on debt extinguishment	—	819	(5,645)
FFO, as adjusted, of the Operating Partnership	\$ 174,723	\$ 175,808	\$ 170,172

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- 1 “FFO of the Operating Partnership” measures 100% of the operating performance of the Operating Partnership’s real estate properties. “FFO attributable to Kite Realty Group Trust common shareholders” reflects a reduction for the redeemable noncontrolling weighted average diluted interest in the Operating Partnership.

Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA)

We define EBITDA, a non-GAAP financial measure, as net income before depreciation and amortization, interest expense and income tax expense of taxable REIT subsidiary. For informational purposes, we have also provided Adjusted EBITDA, which we define as EBITDA less (i) EBITDA from unconsolidated entities, (ii) gains on sales of operating properties or impairment charges, (iii) other income and expense, (iv) noncontrolling interest EBITDA and (v) other non-recurring activity or items impacting comparability from period to period. Annualized Adjusted EBITDA is Adjusted EBITDA for the most recent quarter multiplied by four. Net Debt to Adjusted EBITDA is our share of net debt divided by Annualized Adjusted EBITDA. EBITDA, Adjusted EBITDA, Annualized Adjusted EBITDA and Net Debt to Adjusted EBITDA, as calculated by us, are not comparable to EBITDA and EBITDA-related measures reported by other REITs that do not define EBITDA and EBITDA-related measures exactly as we do. EBITDA, Adjusted EBITDA and Annualized Adjusted EBITDA do not represent cash generated from operating activities in accordance with GAAP, and should not be considered alternatives to net income as an indicator of performance or as alternatives to cash flows from operating activities as an indicator of liquidity.

Considering the nature of our business as a real estate owner and operator, we believe that EBITDA, Adjusted EBITDA and the ratio of Net Debt to Adjusted EBITDA are helpful to investors in measuring our operational performance because they exclude various items included in net income that do not relate to or are not indicative of our operating performance, such as gains or losses from sales of depreciated property and depreciation and amortization, which can make periodic and peer analyses of operating performance more difficult. For informational purposes, we have also provided Annualized Adjusted EBITDA, adjusted as described above. We believe this supplemental information provides a meaningful measure of our operating performance. We believe presenting EBITDA and the related measures in this manner allows investors and other interested parties to form a more meaningful assessment of our operating results.

The following table presents a reconciliation of our EBITDA, Adjusted EBITDA and Annualized Adjusted EBITDA to consolidated net income (the most directly comparable GAAP measure) and a calculation of Net Debt to Adjusted EBITDA.

(\$ in thousands)	Three Months Ended December 31,
Consolidated net income	\$ 2,795
Adjustments to net income:	
Depreciation and amortization	40,758
Interest expense	16,452
Income tax expense of taxable REIT subsidiary	(36)
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	<u>59,969</u>
Adjustments to EBITDA:	
Unconsolidated EBITDA	34
Other income and expense, net	101
Noncontrolling interest	(351)
Adjusted EBITDA	<u>59,753</u>
Annualized Adjusted EBITDA¹	\$ 239,012
Company share of net debt:	
Mortgage and other indebtedness	1,699,239
Less: Partner share of consolidated joint venture debt	(13,373)
Less: Cash, cash equivalents, and restricted cash	(32,176)
Plus: Debt Premium	1,411
Company Share of Net Debt	<u>1,655,101</u>
Net Debt to Adjusted EBITDA	<u><u>6.9x</u></u>

1 Represents Adjusted EBITDA for the three months ended December 31, 2017 (as shown in the table above) multiplied by four.

Comparison of Operating Results for the Years Ended December 31, 2017 and 2016

The following table reflects changes in the components of our consolidated statements of operations for the years ended December 31, 2017 and 2016:

(\$ in thousands)	2017	2016	Net change 2016 to 2017
Revenue:			
Rental income (including tenant reimbursements)	\$ 346,444	\$ 344,541	\$ 1,903
Other property related revenue	11,998	9,581	2,417
Fee income	377	—	377
Total revenue	<u>358,819</u>	<u>354,122</u>	<u>4,697</u>
Expenses:			
Property operating	49,643	47,923	1,720
Real estate taxes	43,180	42,838	342
General, administrative, and other	21,749	20,603	1,146
Transaction costs	—	2,771	(2,771)
Impairment charge	7,411	—	7,411
Depreciation and amortization	172,091	174,564	(2,473)
Total expenses	<u>294,074</u>	<u>288,699</u>	<u>5,375</u>
Operating income	64,745	65,423	(678)
Interest expense	(65,702)	(65,577)	(125)
Income tax benefit (expense) of taxable REIT subsidiary	100	(814)	914
Other expense, net	(415)	(169)	(246)
Loss before gains on sale of operating properties, net	<u>(1,272)</u>	<u>(1,137)</u>	<u>(135)</u>
Gains on sale of operating properties, net	15,160	4,253	10,907
Consolidated net income	13,888	3,116	10,772
Net income attributable to noncontrolling interests	(2,014)	(1,933)	(81)
Net income attributable to Kite Realty Group Trust common shareholders	<u>\$ 11,874</u>	<u>\$ 1,183</u>	<u>\$ 10,691</u>
Property operating expense to total revenue ratio	13.8%	13.5%	0.3%

Rental income (including tenant reimbursements) increased \$1.9 million, or 0.6%, due to the following:

(\$ in thousands)	Net change 2016 to 2017
Properties sold during 2016 and 2017	\$ (6,363)
Properties under redevelopment during 2016 and/or 2017	(3,323)
Development projects completed during 2016 and/or 2017	3,608
Properties fully operational during 2016 and 2017 and other	7,981
Total	<u>\$ 1,903</u>

The net increase of \$8.0 million in rental income for properties that were fully operational during 2016 and 2017 is primarily attributable to an increase in rental rates and an increase in occupancy, which leads to more tenants paying rent. The increase in rental revenue is primarily due to multiple anchor and small shop tenants opening as we completed or partially completed various redevelopment and repositioning projects including Trader Joe's at Centennial Gateway, Ross Dress for Less at Trussville Promenade, Party City at Market Street Village, Marshalls at Bolton Plaza, Ulta Salon at Pine Ridge Crossing, Tuesday Morning at Northdale Promenade, Petco at Hitchcock Plaza, Petsmart at Tarpon Bay Plaza, Buy Buy Baby at Cool Springs Market, Five Below at Shops at Moore and new small shop buildings at Castleton Crossing and Portofino Shopping Center. The net increase of \$3.6 million in rental income for recently completed development projects during 2016 and 2017 is primarily due to multiple anchor tenants opening including Carmike Cinemas at Holly Springs Towne Center - Phase II, Ross Dress for Less and Michaels at Tamiami Crossing and Stein Mart at Parkside Town Commons - Phase II.

The average rents for new comparable leases signed in 2017 were \$21.44 per square foot compared to average expiring rents of \$17.43 per square foot in that period. The average rents for renewals signed in 2017 were \$16.81 per square foot compared to average expiring rents of \$15.77 per square foot in that period. For our retail operating portfolio, annualized base rent per square foot improved to \$16.07 per square foot as of December 31, 2017, up from \$15.53 per square foot as of December 31, 2016.

Other property related revenue primarily consists of parking revenues, overage rent, lease termination income and gains on sales of undepreciated assets. This revenue increased by \$2.4 million, primarily as a result of higher gains on sales of undepreciated assets of \$1.3 million (including the effect of a \$4.9 million gain on the sale of an outlot at Cove Center during the second quarter of 2017) and an increase of \$1.0 million in lease termination income.

We recorded fee income of \$0.4 million for the year ended December 31, 2017. In December 2017, we formed a joint venture with an unrelated third party to develop and own an Embassy Suites full-service hotel next to our Eddy Street Commons operating property at the University of Notre Dame. See additional discussion in Note 2 to the consolidated financial statements.

Property operating expenses increased \$1.7 million, or 3.6%, due to the following:

(\$ in thousands)	Net change 2016 to 2017
Properties sold during 2016 and 2017	\$ (927)
Properties under redevelopment during 2016 and/or 2017	722
Development projects completed during 2016 and/or 2017	546
Properties fully operational during 2016 and 2017 and other	1,379
Total	<u>\$ 1,720</u>

The net increase \$1.4 million in property operating expenses for properties that were fully operational during 2016 and 2017 is primarily due to a combination of increases of \$0.8 million in provision for credit losses attributable to certain anchor bankruptcies in 2017, \$0.8 million in general building repair and landscaping costs at certain properties, \$0.3 million in marketing expense, and \$0.1 million in non-recoverable utility expense. The increases were partially offset by a decrease of \$0.6 million in insurance expense.

As a percentage of revenue, property operating expenses increased between years from 13.5% to 13.8%. The increase was mostly due to an increase in certain non-recoverable expenses including provision for credit losses, marketing expenses, and non-recoverable utility expense at several of our properties.

Real estate taxes increased \$0.3 million, or 0.8%, due to the following:

(\$ in thousands)	Net change 2016 to 2017
Properties sold during 2016 and 2017	\$ (863)
Properties under redevelopment during 2016 and/or 2017	(81)
Development projects completed during 2016 and/or 2017	403
Properties fully operational during 2016 and 2017 and other	883
Total	<u>\$ 342</u>

The net increase of \$0.9 million in real estate taxes for properties that were fully operational during 2016 and 2017 is primarily due to an increase in current year tax assessments at certain operating properties. The majority of real estate tax expense is recoverable from tenants and such recovery is reflected in tenant reimbursement revenue.

General, administrative and other expenses increased \$1.1 million, or 5.6%. The increase is due primarily to higher personnel costs and company overhead expenses, which are partially offset by a severance charge of \$0.5 million in 2016.

Transaction costs decreased by \$2.8 million, as we did not incur any transaction costs for the year ended December 31, 2017.

In 2017, we recorded an impairment charge of \$7.4 million related to one of our operating properties as a result of our conclusion the estimated undiscounted cash flows over the expected holding period did not exceed the carrying value of the asset. See additional discussion in Note 8 to the consolidated financial statements.

Depreciation and amortization expense decreased \$2.5 million, or 1.4%, due to the following:

(\$ in thousands)	Net change 2016 to 2017
Properties sold during 2016 and 2017	\$ (3,687)
Properties under redevelopment during 2016 and/or 2017	3,920
Development projects completed during 2016 and/or 2017	(304)
Properties fully operational during 2016 and 2017 and other	<u>(2,402)</u>
Total	<u>\$ (2,473)</u>

The net increase of \$3.9 million in properties under redevelopment during 2016 and 2017 is primarily due to \$5.8 million of accelerated depreciation and amortization from the demolition of a building at our Fishers Station redevelopment property in preparation for replacing the anchor tenant and from the demolition of a building at The Corner redevelopment property. This increase was partially offset by \$2.2 million of accelerated depreciation and amortization from the demolition of a portion of a building at our Burnt Store Promenade operating property in 2016. The net decrease of \$2.4 million in depreciation and amortization at properties fully operational during 2016 and 2017 is primarily due to a decrease of \$1.6 million in depreciation and amortization caused by tenant-specific assets becoming fully depreciated in 2017 and a decrease of \$0.7 million in accelerated depreciation and amortization on tenant-specific assets caused by a tenant vacating prior to their lease expiration in 2016.

Interest expense increased \$0.1 million or 0.2%. The increase is due to certain development projects, including Tamiami Crossing, Parkside Town Commons - Phase II and Holly Springs Towne Center - Phase II, becoming operational or partially operational throughout 2016. As a portion of a development project becomes operational, we cease capitalization of the related interest expense. This increase in interest expense was offset by reductions in debt utilizing proceeds from current year property sales.

We recorded an income tax benefit of our taxable REIT subsidiary of \$0.1 million compared to an income tax expense of our taxable REIT subsidiary of \$0.8 million for the years ended December 31, 2017 and 2016, respectively. The decrease is primarily due to lower gains on sales of residential units at Eddy Street Commons for the year ended December 31, 2017, compared to the same period in 2016. The last of the units in Phase I were sold in 2016.

We recorded a net gain of \$15.2 million on the sale of our Cove Center, Clay Marketplace, The Shops at Village Walk and Wheatland Towne Center operating properties for the year ended December 31, 2017, compared to a net gain of \$4.3 million on the sale of our Shops at Otty and Publix at St. Cloud operating properties for the year ended December 31, 2016.

Comparison of Operating Results for the Years Ended December 31, 2016 and 2015

The following table reflects changes in the components of our consolidated statements of operations for the years ended December 31, 2016 and 2015:

(\$ in thousands)	2016	2015	Net change 2015 to 2016
Revenue:			
Rental income (including tenant reimbursements)	\$ 344,541	\$ 334,029	\$ 10,512
Other property related revenue	9,581	12,976	(3,395)
Total revenue	354,122	347,005	7,117
Expenses:			
Property operating	47,923	49,973	(2,050)
Real estate taxes	42,838	40,904	1,934
General, administrative, and other	20,603	18,709	1,894
Transaction costs	2,771	1,550	1,221
Non-cash gain from release of assumed earnout liability	—	(4,832)	4,832
Impairment charge	—	1,592	(1,592)
Depreciation and amortization	174,564	167,312	7,252
Total expenses	288,699	275,208	13,491
Operating income	65,423	71,797	(6,374)
Interest expense	(65,577)	(56,432)	(9,145)
Income tax expense of taxable REIT subsidiary	(814)	(186)	(628)
Non-cash gain on debt extinguishment	—	5,645	(5,645)
Gain on settlement	—	4,520	(4,520)
Other expense, net	(169)	(95)	(74)
(Loss) income before gain on sale of operating properties	(1,137)	25,249	(26,386)
Gain on sale of operating properties, net	4,253	4,066	187
Consolidated net income	3,116	29,315	(26,199)
Net income attributable to noncontrolling interests	(1,933)	(2,198)	265
Net income attributable to Kite Realty Group Trust	1,183	27,117	(25,934)
Dividends on preferred shares	—	(7,877)	7,877
Non-cash adjustment for redemption of preferred shares	—	(3,797)	3,797
Net income attributable to common shareholders	\$ 1,183	\$ 15,443	\$ (14,260)
Property operating expense to total revenue ratio	13.5%	14.4%	(0.9)%

Rental income (including tenant reimbursements) increased \$10.5 million, or 3.1%, due to the following:

(\$ in thousands)	Net change 2015 to 2016
Properties acquired during 2015	\$ 7,275
Development properties that became operational or were partially operational in 2015 and/or 2016	4,917
Properties sold during 2015 and 2016	(5,762)
Properties under redevelopment during 2015 and/or 2016	1,109
Properties fully operational during 2015 and 2016 and other	2,973
Total	\$ 10,512

The net increase of \$3.0 million in rental income for properties fully operational during 2015 and 2016 is primarily attributable to an increase in rental rates, increase in economic occupancy percentage, and improved expense control and operating expense recovery resulting in an improvement in net recoveries of \$1.9 million.

The average rents for new comparable leases signed in 2016 were \$20.83 per square foot compared to average expiring rents of \$17.57 per square foot in that period. The average rents for renewals signed in 2016 were \$15.85 per square foot compared to average expiring rents of \$14.79 per square foot in that period. Our same property economic occupancy improved

to 93.4% as of December 31, 2016 from 92.9% as of December 31, 2015. For our retail operating portfolio, annualized base rent per square foot improved to \$15.53 per square foot as of December 31, 2016, up from \$15.22 per square foot as of December 31, 2015.

Other property related revenue primarily consists of parking revenues, overage rent, lease termination income and gains on sales of undepreciated assets. This revenue decreased by \$3.4 million, primarily as a result lower gains on sales of undepreciated assets of \$1.7 million, decreases of \$1.1 million in lease termination income, and fluctuations in other miscellaneous activities.

Property operating expenses decreased \$2.1 million, or 4.1%, due to the following:

(\$ in thousands)	Net change 2015 to 2016
Properties acquired during 2015	\$ 1,577
Development properties that became operational or were partially operational in 2015 and/or 2016	683
Properties sold during 2015 and 2016	(1,288)
Properties under redevelopment during 2015 and/or 2016	(444)
Properties fully operational during 2015 and 2016 and other	(2,578)
Total	<u>\$ (2,050)</u>

The net \$2.6 million decrease for properties fully operational during 2015 and 2016 is primarily due to a combination of decreases of \$1.2 million in provision for credit losses, \$0.8 million in trash removal expense as tenants began contracting for this item directly with outside vendors, \$0.5 million in insurance costs as we generated efficiencies with our larger operating platform, \$0.3 million in utility expense, and \$0.2 million in snow removal expense. The decreases were offset by an increase of \$0.5 million in landscaping expense.

As a percentage of revenue, property operating expenses decreased between years from 14.4% to 13.5%. The decrease was mostly due to an improvement in expense control and an improvement in operating expense recoveries from tenants as a result of higher occupancy rates.

Real estate taxes increased \$1.9 million, or 4.7%, due to the following:

(\$ in thousands)	Net change 2015 to 2016
Properties acquired during 2015	\$ 1,417
Development properties that became operational or were partially operational in 2015 and/or 2016	372
Properties sold during 2015 and 2016	(636)
Properties under redevelopment during 2015 and/or 2016	(127)
Properties fully operational during 2015 and 2016 and other	908
Total	<u>\$ 1,934</u>

The net \$0.9 million increase in real estate taxes for properties fully operational during 2015 and 2016 is due to higher tax assessments at certain operating properties. The majority of our real estate tax expense is recoverable from tenants and reflected in tenant reimbursement revenue.

General, administrative and other expenses increased \$1.9 million, or 10.1%. The increase is due primarily to higher payroll costs and company overhead expenses of \$1.4 million and a severance charge of \$0.5 million in the first quarter of 2016.

Transaction costs generally consist of legal, lender, due diligence, and other expenses for professional services. Such costs increased \$1.2 million as we had terminated transaction costs of \$2.8 million in 2016, compared to property acquisition costs of \$1.6 million over the same period in 2015.

We recorded a non-cash gain from the release of an assumed earnout liability of \$4.8 million for the year ended December 31, 2015. The expiration date of the underlying third party earnout agreement was December 28, 2015, and the original sellers were unable to perform the necessary leasing activity by this date that would have resulted in payment by us of the previously recorded obligation.

We recorded an impairment charge of \$1.6 million related to our Shops at Otty operating property for the year ended December 31, 2015. This charge was recorded due to our intent to sell the property in the near term, which shortened the intended holding period. This property was sold in the second quarter of 2016. See additional discussion in Note 8 to the consolidated financial statements.

Depreciation and amortization expense increased \$7.3 million, or 4.3%, due to the following:

(\$ in thousands)	Net change 2015 to 2016
Properties acquired during 2015	\$ 3,763
Development properties that became operational or were partially operational in 2015 and/or 2016	4,572
Properties sold during 2015 and 2016	(1,603)
Properties under redevelopment during 2015 and/or 2016	2,434
Properties fully operational during 2015 and 2016 and other	(1,914)
Total	<u>\$ 7,252</u>

The net increase of \$2.4 million in properties under redevelopment during 2015 and 2016 is primarily due to an increase of \$1.9 million in accelerated depreciation and amortization from the demolition of a portion of a building at one of our redevelopment properties. The net decrease of \$1.9 million in depreciation at properties fully operational during 2015 and 2016 is due to a decrease in accelerated depreciation and amortization on tenant-specific assets from multiple tenants vacating at several operating properties in 2016, compared to the same period in 2015.

Interest expense increased \$9.1 million or 16.2%. The increase is due to recording \$1.0 million in accelerated amortization of debt issuance costs from amending the unsecured term loans, retiring one of our term loans and securing longer-term fixed rate debt through the issuance of senior unsecured notes in the second half of 2015 and in the third quarter of 2016 that carried higher interest rates than the variable rate on our unsecured revolving credit facility, which was paid down with the proceeds. We also redeemed all of our outstanding preferred shares in the fourth quarter of 2015 using the proceeds from the senior unsecured notes. The increase is also due to certain development projects, including Parkside Town Commons - Phase I and Holly Springs Towne Center - Phase II becoming operational. As a portion of the project becomes operational, we cease capitalization of the related interest expense.

We recorded a non-cash gain on debt extinguishment of \$5.6 million for the year ended December 31, 2015, related to the retirement of the \$90 million loan secured by our City Center operating property.

We recorded a gain on settlement of \$4.5 million for the year ended December 31, 2015, related to the settlement of a dispute related to eminent domain and related damages at one of our operating properties. See additional discussion in Note 3 to the consolidated financial statements.

Liquidity and Capital Resources

Overview

Our primary finance and capital strategy is to maintain a strong balance sheet with sufficient flexibility to fund our operating and investment activities in a cost-effective manner. We consider a number of factors when evaluating our level of indebtedness and when making decisions regarding additional borrowings or equity offerings, including the estimated value of properties to be developed or acquired, the estimated market value of our properties and the Company as a whole upon placement of the borrowing or offering, and the ability of particular properties to generate cash flow to cover debt service. We will continue to monitor the capital markets and may consider raising additional capital through the issuance of our common or preferred shares, unsecured debt securities, or other securities.

Our Principal Capital Resources

For a discussion of cash generated from operations, see “Cash Flows,” beginning on page 74. In addition to cash generated from operations, we discuss below our other principal capital resources.

The continued positive operating cash flows of the Company have enhanced our liquidity position and reduced our borrowing costs. We continue to focus on a balanced approach to growth and staggering debt maturities in order to retain our financial flexibility.

In 2017, we sold our Cove Center operating property in Stuart, Florida, our Clay Marketplace operating property in Birmingham, Alabama, our Shops at Village Walk operating property in Fort Myers, Florida, and our Wheatland Towne Crossing operating property in Dallas, Texas, for aggregate gross proceeds of \$77.7 million and a net gain of \$15.2 million. We utilized these proceeds to pay down the unsecured revolving credit facility and fund a portion of our development costs.

As of December 31, 2017, we had approximately \$373.8 million available under our unsecured revolving credit facility for future borrowings based on the unencumbered asset pool allocated to the unsecured revolving credit facility. We also had \$24.1 million in cash and cash equivalents as of December 31, 2017.

We were in compliance with all applicable financial covenants under our unsecured revolving credit facility, our unsecured term loans, and our senior unsecured notes as of December 31, 2017.

We have on file with the SEC a shelf registration statement on Form S-3 relating to the offer and sale, from time to time, of an indeterminate amount of equity and debt securities. Equity securities may be offered and sold by the Parent Company, and the net proceeds of any such offerings would be contributed to the Operating Partnership in exchange for additional General Partner Units. Debt securities may be offered and sold by the Operating Partnership with the Operating Partnership receiving the proceeds. From time to time, we may issue securities under this shelf registration statement to fund the repayment of long-term debt upon maturity and for other general corporate purposes. We plan to file a new shelf registration statement on Form S-3 prior to expiration of the current registration statement.

In the future, we will continue to monitor the capital markets and may consider raising additional capital through the issuance of our common shares, preferred shares or other securities. We may also raise capital by disposing of properties, land parcels or other assets that are no longer core components of our growth strategy. The sale price may differ from our carrying value at the time of sale.

Our Principal Liquidity Needs

Short-Term Liquidity Needs

Near-Term Debt Maturities. As of December 31, 2017, we had \$37.9 million of secured debt scheduled to mature in 2018, excluding scheduled monthly principal payments. We believe we have sufficient liquidity to repay these obligations from current resources and our unsecured revolving credit facility.

Other Short-Term Liquidity Needs. The requirements for qualifying as a REIT and for a tax deduction for some or all of the dividends paid to shareholders necessitate that we distribute at least 90% of our taxable income on an annual basis. Such requirements cause us to have substantial liquidity needs over both the short term and the long term. Our short-term liquidity needs consist primarily of funds necessary to pay operating expenses associated with our operating properties, interest expense and scheduled principal payments on our debt, expected dividend payments to our common shareholders and to Common Unit holders, and recurring capital expenditures.

In November 2017, our Board of Trustees declared a cash distribution of \$0.3175 per common share and Common Unit for the fourth quarter of 2017, which represented a 5.0% increase over our previous quarterly distribution. This distribution, totaling \$27.2 million, was paid on January 12, 2018 to common shareholders and Common Unit holders of record as of January 5, 2018. Future dividends are at the discretion of the Board of Trustees.

Other short-term liquidity needs also include expenditures for tenant improvements, renovation costs, external leasing commissions and recurring capital expenditures. During the year ended December 31, 2017, we incurred \$2.9 million of costs for recurring capital expenditures on operating properties and also incurred \$15.0 million of costs for tenant improvements and external leasing commissions (excluding development and redevelopment properties). We currently anticipate incurring approximately \$14 million to \$16 million of additional major tenant improvements during 2018 at a number of our operating properties.

As of December 31, 2017, we had two development projects under construction, both at our Eddy Street Commons property across the street from the University of Notre Dame in South Bend, Indiana. For the first project - Eddy Street Commons, Phase II - the total estimated cost equals \$89.2 million. This consists of our estimated costs of \$8.4 million, tax increment financing of \$16.1 million, and residential apartments and townhomes costs of \$64.7 million that we expect will be covered by an unrelated third party under a ground sublease that is currently being negotiated. For the second project - the Embassy Suites hotel - our share of the total estimated costs after deducting \$6.0 million of tax increment financing is approximately \$13.9 million, of which \$3.8 million had been incurred as of December 31, 2017. We anticipate incurring the majority of the remaining costs for both projects over the next 12 to 36 months. We believe we have sufficient financing in place to fund these projects through cash flow from operations and borrowings on the hotel construction loan.

We have seven properties in our 3-R initiative that are currently under construction. Total estimated costs of this construction are expected to be in the range of \$71 million to \$77 million. We have already spent \$47.8 million and the remaining costs are expected to be incurred through the end of 2018. We expect to be able to fund these costs largely from operating cash flow, draws from our unsecured revolving credit facility or proceeds from asset sales.

Long-Term Liquidity Needs

Our long-term liquidity needs consist primarily of funds necessary to pay for any new development projects, redevelopment of existing properties, non-recurring capital expenditures, acquisitions of properties, and payment of indebtedness at maturity.

Potential Redevelopment, Reposition, Repurpose Opportunities. We are currently evaluating additional redevelopment, repositioning, and repurposing of several other operating properties as part of our 3-R initiative. Total estimated costs of these properties are currently expected to be in the range of \$40 million to \$56 million. We believe we will have sufficient funding for these projects through cash flow from operations, borrowings on our unsecured revolving credit facility and proceeds from asset sales.

Selective Acquisitions, Developments and Joint Ventures. We may selectively pursue the acquisition and development of other properties, which would require additional capital. It is unlikely that we would have sufficient funds on hand to meet these long-term capital requirements, requiring us to satisfy these needs through additional borrowings, sales of common or preferred shares, issuance of Operating Partnership units, cash generated through property dispositions or future property acquisitions and/or participation in joint venture arrangements. We cannot be certain that we would have access to these sources of capital

on satisfactory terms, if at all, to fund our long-term liquidity requirements. We evaluate all future opportunities against pre-established criteria including, but not limited to, location, demographics, expected return, tenant credit quality, tenant relationships, and amount of existing retail space in the market. Our ability to access the capital markets will be dependent on a number of factors, including general capital market conditions.

Capitalized Expenditures on Consolidated Properties

The following table summarizes cash capital expenditures for our development and redevelopment properties and other capital expenditures for the year ended December 31, 2017:

(\$ in thousands)	Year to Date	
	December 31, 2017	
Developments	\$	4,121
Under Construction 3-R Projects		39,868
3-R Opportunities		1,865
Recently completed developments/redevelopments and other ¹		8,659
Recurring operating capital expenditures (primarily tenant improvement payments)		16,013
Total	\$	<u>70,526</u>

- ¹ This classification includes Parkside Town Commons - Phase II, Holly Springs Towne Center - Phase II, Tamiami Crossing, Northdale Promenade and Trussville Promenade.

We capitalize certain indirect costs such as interest, payroll, and other general and administrative costs related to these development activities. If we had experienced a 10% reduction in development and redevelopment activities, without a corresponding decrease in indirect project costs, we would have recorded additional expense of \$0.3 million for the year ended December 31, 2017.

Impact of Changes in Credit Ratings on Our Liquidity

We have been assigned investment grade corporate credit ratings from two nationally recognized credit rating agencies. These ratings were unchanged during 2017.

In the future, the ratings could change based upon, among other things, the impact that prevailing economic conditions may have on our results of operations and financial condition. Credit rating reductions by one or more rating agencies could also adversely affect our access to funding sources, the cost and other terms of obtaining funding, as well as our overall financial condition, operating results and cash flow.

Cash Flows

As of December 31, 2017, we had cash and cash equivalents on hand of \$24.1 million. We may be subject to concentrations of credit risk with regard to our cash and cash equivalents. We place our cash and short-term cash investments with highly rated financial institutions. While we attempt to limit our exposure at any point in time, occasionally, such cash and investments may temporarily be in excess of FDIC and SIPC insurance limits. We also maintain certain compensating balances in several financial institutions in support of borrowings from those institutions. Such compensating balances were not material to the consolidated balance sheets.

Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016

Cash provided by operating activities was \$153.7 million for the year ended December 31, 2017, a decrease of \$1.3 million from the same period of 2016. The slight decrease was primarily due to a decrease in cash provided by operating activities due to our 2017 property sales, partially offset by the completion of several 3-R projects, and higher revenue on sales of undepreciated assets in 2017.

Cash used in investing activities was \$0.1 million for the year ended December 31, 2017, as compared to cash used in investing activities of \$82.7 million in the same period of 2016. The major changes in cash used in investing activities are as follows:

- Net proceeds of \$76.1 million related to the sale of Cove Center, Clay Marketplace, The Shops at Village Walk and Wheatland Towne Crossing in 2017, compared to net proceeds of \$14.2 million from two property sales in 2016; and
- Decrease in capital expenditures of \$23.8 million, partially offset by a decrease in construction payables of \$4.3 million. In 2017, we incurred additional construction costs at our Parkside Towne Commons - Phase II and Holly Springs Towne Center - Phase II development projects, and additional construction costs at several of our redevelopment properties.

Cash used in financing activities was \$149.3 million for the year ended December 31, 2017, compared to cash used in financing activities of \$86.3 million in the same period of 2016. Highlights of significant cash sources and uses in financing activities during 2017 are as follows:

- We retired the \$6.7 million loan secured by our Pleasant Hill Commons operating property using a draw on the unsecured revolving credit facility;
- We borrowed \$91.0 million on the unsecured revolving credit facility to fund development activities, redevelopment activities, and tenant improvement costs;
- We used the \$76.1 million proceeds from the sale of four operating properties to pay down the unsecured revolving credit facility;
- We repaid \$48.2 million on the unsecured revolving credit facility using cash flows generated from operations;
- We paid \$8.3 million to partners in one of our joint ventures to fund the partial redemption of their redeemable noncontrolling interests; and
- We made distributions to common shareholders and Common Unit holders of \$105.0 million.

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Cash provided by operating activities was \$154.9 million for the year ended December 31, 2016, a decrease of \$14.4 million from the same period of 2015. The decrease was primarily due to the timing of real estate tax payments and annual insurance payments and an increase in leasing costs.

Cash used in investing activities was \$82.7 million for the year ended December 31, 2016, as compared to cash used in investing activities of \$84.4 million in the same period of 2015. Highlights of significant cash sources and uses are as follows:

- Net proceeds of \$14.2 million related to the sale of operating properties in 2016, compared to net proceeds of \$170.0 million related to the sale of seven operating properties in March 2015 and the sale of our Four Corner Square and Cornelius Gateway operating properties in December 2015;

- There were no property acquisitions in 2016, while there was a net cash outflow of \$166.4 million related to acquisitions over the same period in 2015; and
- Increase in capital expenditures of \$1.8 million, in addition to a decrease in construction payables of \$3.0 million. In 2016, we substantially completed construction at our Tamiami Crossing and Holly Springs Towne Center - Phase II development properties, and incurred additional construction costs at several of our redevelopment properties.

Cash used in financing activities was \$86.3 million for the year ended December 31, 2016, compared to cash used in financing activities of \$94.9 million in the same period of 2015. Highlights of significant cash sources and uses in financing activities during 2016 are as follows:

- We retired approximately \$139 million of secured loans that were secured by multiple operating properties via draws on our unsecured revolving credit facility;
- We issued \$300 million of our senior unsecured notes in a public offering. The net proceeds of which were utilized to retire a \$200 million term loan and the \$75.9 million construction loan secured by our Parkside Town Commons operating property and to fund a portion of the retirement of \$35 million in secured loans.
- We drew the remaining \$100 million on our \$200 million seven-year unsecured term loan and used the proceeds to pay down the unsecured revolving credit facility;
- We issued 137,229 of our common shares at an average price per share of \$29.52 pursuant to our at-the-market equity program, generating gross proceeds of approximately \$4.1 million and, after deducting commissions and other costs, net proceeds of approximately \$3.8 million. The proceeds from these offerings were contributed to the Operating Partnership and used to pay down our unsecured revolving credit facility; and
- We made distributions to common shareholders and Common Unit holders of \$98.6 million.

Other Matters

Financial Instruments

We are exposed to capital market risk, such as changes in interest rates. In order to reduce the volatility relating to interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements that in our opinion have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources. We do, however, have certain obligations related to some of the projects in our operating and development properties.

As of December 31, 2017, we have outstanding letters of credit totaling \$6.3 million, against which no amounts were advanced.

Contractual Obligations

The following table summarizes our contractual obligations to third parties based on contracts executed as of December 31, 2017.

(\$ in thousands)	Consolidated Long-term Debt and Interest¹	Development Activity and Tenant Allowances²	Operating Ground Leases	Employment Contracts³	Total
2018	\$ 110,663	\$ 14,538	\$ 1,686	\$ 943	\$ 127,830
2019	71,514	—	1,694	—	73,208
2020	113,121	—	1,777	—	114,898
2021	480,374	—	1,789	—	482,163
2022	447,348	—	1,814	—	449,162
Thereafter	848,307	—	73,790	—	922,097
Total	\$ 2,071,327	\$ 14,538	\$ 82,550	\$ 943	\$ 2,169,358

- 1 Our long-term debt consists of both variable and fixed-rate debt and includes both principal and interest. Interest expense for variable-rate debt was calculated using the interest rates as of December 31, 2017.
- 2 Tenant allowances include commitments made to tenants at our operating and under construction development and redevelopment properties.
- 3 We have entered into employment agreements with certain members of senior management. Each employment agreement automatically renewed for one additional year on July 1, 2017. Each agreement will continue to renew each July 1st thereafter unless we or the individual elects not to renew the agreement.

Obligations in Connection with Development and Redevelopment Projects Under Construction

We are obligated under various completion guarantees with lenders and tenants to complete all or portions of our under construction development and redevelopment projects. We believe we currently have sufficient financing in place to fund our investment in any existing or future projects through cash from operations, borrowings on our unsecured revolving credit facility and through our joint venture's borrowings on its construction loan for the Embassy Suites at University of Notre Dame.

Our share of estimated future costs for our under construction and future developments and redevelopments is further discussed on page 73 in the "Short and Long-Term Liquidity Needs" section.

Outstanding Indebtedness

The following table presents details of outstanding consolidated indebtedness as of December 31, 2017 and 2016 adjusted for hedges:

(\$ in thousands)	December 31, 2017	December 31, 2016
Senior unsecured notes	\$ 550,000	\$ 550,000
Unsecured revolving credit facility	60,100	79,600
Unsecured term loans	400,000	400,000
Mortgage notes payable - fixed rate	576,927	587,762
Mortgage notes payable - variable rate	113,623	114,388
Net debt premiums and issuance costs, net	(1,411)	(676)
Total mortgage and other indebtedness	\$ 1,699,239	\$ 1,731,074

Consolidated indebtedness, including weighted average maturities and weighted average interest rates at December 31, 2017, is summarized below:

(\$ in thousands)	Outstanding Amount	Ratio	Weighted Average Interest Rate	Weighted Average Maturity (in years)
Fixed rate debt ¹	\$ 1,562,423	92%	4.10%	5.6
Variable rate debt	138,227	8%	3.06%	4.1
Net debt premiums and issuance costs, net	(1,411)	N/A	N/A	N/A
Total	<u>\$ 1,699,239</u>	100%	4.02%	5.5

1 Fixed rate debt includes, and variable rate debt excludes, the portion of such debt that has been hedged by interest rate derivatives. As of December 31, 2017, \$435.5 million in variable rate debt is hedged for a weighted average 1.9 years.

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

Variable interest rates on mortgage indebtedness are based on LIBOR plus spreads ranging from 160 to 225 basis points. At December 31, 2017, the one-month LIBOR interest rate was 1.56%. Fixed interest rates on mortgage loans range from 3.78% to 6.78%.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments depend upon prevailing interest rates. We are exposed to interest rate changes primarily through our variable-rate unsecured credit facility and unsecured term loans and other property-specific variable-rate mortgages. Our objectives with respect to interest rate risk are to limit the impact of interest rate changes on operations and cash flows, and to lower its overall borrowing costs. To achieve these objectives, we may borrow at fixed rates and may enter into derivative financial instruments such as interest rate swaps, hedges, etc., in order to mitigate its interest rate risk on a related variable-rate financial instrument. As a matter of policy, we do not utilize financial instruments for trading or speculative transactions.

We had \$1.7 billion of outstanding consolidated indebtedness as of December 31, 2017 (inclusive of net unamortized net debt premiums and issuance costs of \$1.4 million). As of December 31, 2017, we were party to various consolidated interest rate hedge agreements totaling \$435.5 million, with maturities over various terms through 2021. Reflecting the effects of these hedge agreements, our fixed and variable rate debt would have been \$1.6 billion (92%) and \$0.1 billion (8%), respectively, of our total consolidated indebtedness at December 31, 2017.

We have \$37.9 million of fixed rate debt maturing during 2018. A 100 basis point increase in market interest rates would not materially impact the annual cash flows associated with these loans. A 100 basis point change in interest rates on our unhedged variable rate debt as of December 31, 2017 would change our annual cash flow by \$1.4 million. Based upon the terms of our variable rate debt, we are most vulnerable to a change in short-term LIBOR interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company included in this Report are listed in Part IV, Item 15(a) of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Kite Realty Group Trust

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Parent Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Parent Company's Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There has been no change in the Parent Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) identified in connection with the evaluation required by Rule 13a-15(b) under the Securities Exchange Act of 1934 of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2017 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

The Parent Company is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision of and with the participation of the Parent Company's management, including its Chief Executive Officer and Chief Financial Officer, the Parent Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the 2013 framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control – Integrated Framework*, the Parent Company's management has concluded that its internal control over financial reporting was effective as of December 31, 2017.

The Parent Company's independent auditors, Ernst & Young LLP, an independent registered public accounting firm, have issued a report on its internal control over financial reporting as stated in their report which is included herein.

The Parent Company's internal control system was designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Kite Realty Group, L.P.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Operating Partnership's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Operating Partnership's Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There has been no change in the Operating Partnership's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) identified in connection with the evaluation required by Rule 13a-15(b) under the Securities Exchange Act of 1934 of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2017 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

The Operating Partnership is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision of and with the participation of the Operating Partnership's management, including its Chief Executive Officer and Chief Financial Officer, the Operating Partnership conducted an evaluation of the effectiveness of its internal control over financial reporting based on the 2013 framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control – Integrated Framework*, the Operating Partnership's management has concluded that its internal control over financial reporting was effective as of December 31, 2017.

The Operating Partnership's independent auditors, Ernst & Young LLP, an independent registered public accounting firm, have issued a report on its internal control over financial reporting as stated in their report which is included herein.

The Operating Partnership's internal control system was designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems,

no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Report of Independent Registered Public Accounting Firm

The Shareholders and the Board of Trustees of Kite Realty Group Trust:

Opinion on Internal Control over Financial Reporting

We have audited Kite Realty Group Trust's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). In our opinion, Kite Realty Group Trust (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Indianapolis, Indiana
February 20, 2018

Report of Independent Registered Public Accounting Firm

The Partners of Kite Realty Group, L.P. and subsidiaries and the Board of Trustees of Kite Realty Group Trust:

Opinion on Internal Control over Financial Reporting

We have audited Kite Realty Group, L.P. and subsidiaries' internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). In our opinion, Kite Realty Group, L.P. and subsidiaries' (the Partnership) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Partnership and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Indianapolis, Indiana
February 20, 2018

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is hereby incorporated by reference to the material appearing in our 2018 Annual Meeting Proxy Statement (the “Proxy Statement”), which we intend to file within 120 days after our fiscal year-end in accordance with Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated by reference to the material appearing in our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this Item is hereby incorporated by reference to the material appearing in our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated by reference to the material appearing in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is hereby incorporated by reference to the material appearing in our Proxy Statement.

PART IV

ITEM 15. EXHIBITS, AND FINANCIAL STATEMENT SCHEDULE

- (a) Documents filed as part of this report:
 - (1) Financial Statements:
Consolidated financial statements for the Company listed on the index immediately preceding the financial statements at the end of this report.
 - (2) Financial Statement Schedule:
Financial statement schedule for the Company listed on the index immediately preceding the financial statements at the end of this report.
 - (3) Exhibits:
The Company files as part of this report the exhibits listed on the Exhibit Index.
- (b) Exhibits:
The Company files as part of this report the exhibits listed on the Exhibit Index. Other financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.
- (c) Financial Statement Schedule:
The Company files as part of this report the financial statement schedule listed on the index immediately preceding the financial statements at the end of this report.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

EXHIBIT INDEX

Exhibit No.	Description	Location
2.1	Agreement and Plan of Merger by and among Kite Realty Group Trust, KRG Magellan, LLC and Inland Diversified Real Estate Trust, Inc., dated February 9, 2014	Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on February 11, 2014
3.1	Articles of Amendment and Restatement of Declaration of Trust of the Company, as supplemented and amended	Incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 27, 2015
3.2	Articles of Amendment to the Articles of Amendment and Restatement of Declaration of Trust of Kite Realty Group Trust, as supplemented and amended	Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on May 28, 2015
3.3	Second Amended and Restated Bylaws of the Company, as amended	Incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 27, 2015
3.4	First Amendment to the Second Amended and Restated Bylaws of Kite Realty Group Trust, as amended	Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on May 28, 2015
4.1	Form of Common Share Certificate	Incorporated by reference to Exhibit 4.1 to Kite Realty Group Trust's registration statement on Form S-11 (File No. 333-114224) declared effective by the SEC on August 10, 2004
4.2	Indenture, dated September 26, 2016, between Kite Realty Group, L.P., as issuer, and U.S. Bank National Association, as trustee	Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on September 27, 2016
4.3	First Supplemental Indenture, dated September 26, 2016, among Kite Realty Group, L.P., Kite Realty Group Trust, as possible future guarantor, and U.S. Bank National Association	Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on September 27, 2016
4.4	Form of Global Note representing the Notes	Incorporated by reference to Exhibits 4.2 and 4.3 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on September 27, 2016
10.1	Amended and Restated Agreement of Limited Partnership of Kite Realty Group, L.P., dated as of August 16, 2004	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.2	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Kite Realty Group, L.P., dated as of December 7, 2010	Incorporate by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on December 13, 2010
10.3	Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Kite Realty Group, L.P.	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on March 12, 2012

10.4	Amendment No. 3 to Amended and Restated Agreement of Limited Partnership of Kite Realty Group, L.P.	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2014
10.5	Executive Employment Agreement, dated as of July 28, 2014, by and between the Company and John A. Kite*	Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2014
10.6	Executive Employment Agreement, dated as of July 28, 2014, by and between the Company and Thomas K. McGowan*	Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2014
10.7	Executive Employment Agreement, dated as of July 28, 2014, by and between the Company and Daniel R. Sink*	Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2014
10.8	Executive Employment Agreement, dated as of August 6, 2014, by and between the Company and Scott E. Murray*	Incorporated by reference to Exhibit 10.8 the Quarterly Report on Form 10-Q of Kite Realty Group Trust for the period ended September 30, 2014.
10.9	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and Alvin E. Kite*	Incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.10	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and John A. Kite*	Incorporated by reference to Exhibit 10.17 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.11	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and Thomas K. McGowan*	Incorporated by reference to Exhibit 10.18 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.12	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and Daniel R. Sink*	Incorporated by reference to Exhibit 10.19 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.13	Indemnification Agreement, dated as of February 27, 2015, by and between Kite Realty Group, L.P., and Scott E. Murray*	Incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 27, 2015
10.14	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and William E. Bindley*	Incorporated by reference to Exhibit 10.20 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.15	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and Michael L. Smith*	Incorporated by reference to Exhibit 10.21 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.16	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and Eugene Golub*	Incorporated by reference to Exhibit 10.22 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004

10.17	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and Richard A. Cosier*	Incorporated by reference to Exhibit 10.23 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.18	Indemnification Agreement, dated as of August 16, 2004, by and between Kite Realty Group, L.P. and Gerald L. Moss*	Incorporated by reference to Exhibit 10.24 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.19	Indemnification Agreement, dated as of November 3, 2008, by and between Kite Realty Group, L.P. and Darell E. Zink, Jr.*	Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Kite Realty Group Trust for the period ended September 30, 2008
10.20	Indemnification Agreement, dated as of March 8, 2013, by and between Kite Realty Group, L.P. and Victor J. Coleman*	Incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K of Kite Realty Group Trust for the period ended December 31, 2012
10.21	Indemnification Agreement, dated as of March 7, 2014, by and between Kite Realty Group, L.P. and Christie B. Kelly*	Incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K of Kite Realty Group Trust for the year ended December 31, 2013
10.22	Indemnification Agreement, dated as of March 7, 2014, by and between Kite Realty Group, L.P. and David R. O'Reilly*	Incorporated by reference to Exhibit 10.22 to the Annual Report on Form 10-K of Kite Realty Group Trust for the year ended December 31, 2013
10.23	Indemnification Agreement, dated as of March 7, 2014, by and between Kite Realty Group, L.P. and Barton R. Peterson*	Incorporated by reference to Exhibit 10.23 to the Annual Report on Form 10-K of Kite Realty Group Trust for the year ended December 31, 2013
10.24	Indemnification Agreement, dated as of February 27, 2015, by and between Kite Realty Group, L.P., and Lee A. Daniels*	Incorporated by reference to Exhibit 10.24 to the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 27, 2015
10.25	Indemnification Agreement, dated as of February 27, 2015, by and between Kite Realty Group, L.P., and Gerald W. Grupe*	Incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 27, 2015
10.26	Indemnification Agreement, dated as of February 27, 2015, by and between Kite Realty Group, L.P., and Charles H. Wurtz bach*	Incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 27, 2015
10.27	Kite Realty Group Trust 2008 Employee Share Purchase Plan*	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on May 12, 2008
10.28	Registration Rights Agreement, dated as of August 16, 2004, by and among the Company, Alvin E. Kite, Jr., John A. Kite, Paul W. Kite, Thomas K. McGowan, Daniel R. Sink, George F. McMannis, Mark Jenkins, C. Kenneth Kite, David Grieve and KMI Holdings, LLC	Incorporated by reference to Exhibit 10.32 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004

10.29	Amendment No. 1 to Registration Rights Agreement, dated August 29, 2005, by and among the Company and the other parties listed on the signature page thereto	Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Kite Realty Group Trust for the period ended September 30, 2005
10.30	Tax Protection Agreement, dated August 16, 2004, by and among the Company, Kite Realty Group, L.P., Alvin E. Kite, Jr., John A. Kite, Paul W. Kite, Thomas K. McGowan and C. Kenneth Kite	Incorporated by reference to Exhibit 10.33 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 20, 2004
10.31	Form of 2014 Outperformance LTIP Unit Award Agreement	Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2014
10.32	Form of 2016 Outperformance Plan LTIP Unit Agreement*	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on February 3, 2016
10.33	Kite Realty Group Trust 2013 Equity Incentive Plan*	Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Kite Realty Group Trust filed with the SEC on May 8, 2013
10.34	Form of Nonqualified Share Option Agreement under 2013 Equity Incentive Plan*	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on May 14, 2013
10.35	Form of Restricted Share Agreement under 2013 Equity Incentive Plan*	Incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on May 14, 2013
10.36	Schedule of Non-Employee Trustee Fees and Other Compensation*	Incorporated by reference to Exhibit 10.36 of the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 26, 2016
10.37	Kite Realty Group Trust Trustee Deferred Compensation Plan*	Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Kite Realty Group Trust for the period ended June 30, 2006
10.38	Form of Performance Share Unit Agreement under 2013 Equity Incentive Plan*	Incorporated by reference to Exhibit 10.38 of the Annual Report on Form 10-K of Kite Realty Group Trust filed with the SEC on February 27, 2017
10.39	Fifth Amended and Restated Credit Agreement, dated as of July 28, 2016, by and among Kite Realty Group, L.P., KeyBank National Association, as Administrative Agent, and the other lenders party thereto	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2016
10.40	First Amended and Restated Springing Guaranty, dated as of July 28, 2016, by Kite Realty Group Trust	Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2016

10.41	Term Loan Agreement, dated as of April 30, 2012, by and among the Operating Partnership, the Company, KeyBank National Association, as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, the Huntington National Bank, as Documentation Agent, Keybank Capital Markets and Wells Fargo Securities, LLC, as Joint Bookrunners and Joint Lead Arrangers, and the other lenders	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on May 4, 2012
10.42	First Amendment to Term Loan Agreement, dated as of February 26, 2013, by and among the Operating Partnership, the Company, certain subsidiaries of the Operating Partnership party thereto, KeyBank National Association, as a lender and as Administrative Agent, and the other lenders party thereto	Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on March 4, 2013
10.43	Second Amendment to Term Loan Agreement, dated as of August 21, 2013, by and among the Operating Partnership, the Company, certain subsidiaries of the Operating Partnership party thereto, KeyBank National Association, as a lender and as Administrative Agent, and the other lenders party thereto	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on August 27, 2013
10.44	Guaranty, dated as of April 30, 2012, by the Company and certain subsidiaries of the Operating Partnership party thereto	Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on May 4, 2012
10.45	Purchase and Sale Agreement, dated September 16, 2014, by and among Inland Real Estate Income Trust, Inc. and the subsidiaries of Kite Realty Group Trust party thereto	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on September 22, 2014
10.46	Note Purchase Agreement, dated as of August 28, 2015, by and among Kite Realty Group, L.P., and the other parties named therein as Purchasers	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on September 3, 2015
10.47	Term Loan Agreement, dated as of October 26, 2015, by and among Kite Realty Group, L.P., KeyBank National Association, as Administrative Agent, and the other lenders party thereto	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on October 30, 2015
10.48	First Amendment to Term Loan Agreement, dated as of July 28, 2016, by and among Kite Realty Group, L.P., Kite Realty Group Trust, KeyBank National Association, as Administrative Agent, and the other lenders party thereto	Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Kite Realty Group Trust filed with the SEC on July 29, 2016
10.49	Schedule of Non-Employee Trustee Fees and Other Compensation*	Filed herewith
12.1	Statement of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends of the Parent Company	Filed herewith
12.2	Statement of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends of the Operating Partnership	Filed herewith
21.1	List of Subsidiaries	Filed herewith
23.1	Consent of Ernst & Young LLP relating to the Parent Company	Filed herewith
23.2	Consent of Ernst & Young LLP relating to the Operating Partnership	Filed herewith

31.1	Certification of principal executive officer of the Parent Company required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of principal financial officer of the Parent Company required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.3	Certification of principal executive officer of the Operating Partnership required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.4	Certification of principal financial officer of the Operating Partnership required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer and Chief Financial Officer of the Parent Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of Chief Executive Officer and Chief Financial Officer of the Operating Partnership pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.1	Material U.S. Federal Income Tax Considerations	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

* Denotes a management contract or compensatory, plan contract or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KITE REALTY GROUP TRUST

(Registrant)

February 20, 2018
(Date)

/s/ John A. Kite

John A. Kite
Chairman and Chief Executive Officer
(Principal Executive Officer)

February 20, 2018
(Date)

/s/ Daniel R. Sink

Daniel R. Sink
Chief Financial Officer
(Principal Financial Officer)

KITE REALTY GROUP L.P. AND SUBSIDIARIES

(Registrant)

February 20, 2018
(Date)

/s/ John A. Kite

John A. Kite
Chairman and Chief Executive Officer
(Principal Executive Officer)

February 20, 2018
(Date)

/s/ Daniel R. Sink

Daniel R. Sink
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ John A. Kite</u> (John A. Kite)	Chairman, Chief Executive Officer, and Trustee (Principal Executive Officer)	February 20, 2018
<u>/s/ William E. Bindley</u> (William E. Bindley)	Trustee	February 20, 2018
<u>/s/ Victor J. Coleman</u> (Victor J. Coleman)	Trustee	February 20, 2018
<u>/s/ Christie B. Kelly</u> (Christie B. Kelly)	Trustee	February 20, 2018
<u>/s/ David R. O'Reilly</u> (David R. O'Reilly)	Trustee	February 20, 2018
<u>/s/ Barton R. Peterson</u> (Barton R. Peterson)	Trustee	February 20, 2018
<u>/s/ Lee A. Daniels</u> (Lee A. Daniels)	Trustee	February 20, 2018
<u>/s/ Gerald W. Grupe</u> (Gerald W. Grupe)	Trustee	February 20, 2018
<u>/s/ Charles H. Wurtz bach</u> (Charles H. Wurtz bach)	Trustee	February 20, 2018
<u>/s/ Daniel R. Sink</u> (Daniel R. Sink)	Chief Financial Officer (Principal Financial Officer)	February 20, 2018
<u>/s/ David E. Buell</u> (David E. Buell)	Senior Vice President, Chief Accounting Officer	February 20, 2018

Kite Realty Group Trust and Kite Realty Group, L.P. and subsidiaries

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All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees of Kite Realty Group Trust:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kite Realty Group Trust (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of sponsoring organizations of the Treadway Commission (2013 Framework) and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2004.

Indianapolis, Indiana

February 20, 2018

Report of Independent Registered Public Accounting Firm

The Partners of Kite Realty Group, L.P. and subsidiaries and the Board of Trustees of Kite Realty Group Trust:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kite Realty Group, L.P. and subsidiaries (the Partnership) as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income, partner's equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Partnership's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of sponsoring organizations of the Treadway Commission (2013 Framework) and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Partnership's auditor since 2015.
Indianapolis, Indiana
February 20, 2018

Kite Realty Group Trust
Consolidated Balance Sheets
(\$ in thousands, except share data)

	December 31, 2017	December 31, 2016
	<u> </u>	<u> </u>
Assets:		
Investment properties, at cost	\$ 3,957,884	\$ 3,996,065
Less: accumulated depreciation	(664,614)	(560,683)
	<u>3,293,270</u>	<u>3,435,382</u>
Cash and cash equivalents	24,082	19,874
Tenant and other receivables, including accrued straight-line rent of \$31,747 and \$28,703 respectively, net of allowance for uncollectible accounts	58,328	53,087
Restricted cash and escrow deposits	8,094	9,037
Deferred costs and intangibles, net	112,359	129,264
Prepaid and other assets	16,365	9,727
Total Assets	<u><u>\$ 3,512,498</u></u>	<u><u>\$ 3,656,371</u></u>
Liabilities and Equity:		
Mortgage and other indebtedness	\$ 1,699,239	\$ 1,731,074
Accounts payable and accrued expenses	78,482	80,664
Deferred revenue and intangibles, net and other liabilities	96,564	112,202
Total Liabilities	<u>1,874,285</u>	<u>1,923,940</u>
Commitments and contingencies	—	—
Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests	72,104	88,165
Equity:		
Kite Realty Group Trust Shareholders' Equity		
Common Shares, \$.01 par value, 225,000,000 shares authorized, 83,606,068 and 83,545,398 shares issued and outstanding at December 31, 2017 and December 31, 2016, respectively	836	835
Additional paid in capital and other	2,071,418	2,062,360
Accumulated other comprehensive income (loss)	2,990	(316)
Accumulated deficit	(509,833)	(419,305)
Total Kite Realty Group Trust Shareholders' Equity	<u>1,565,411</u>	<u>1,643,574</u>
Noncontrolling Interests	<u>698</u>	<u>692</u>
Total Equity	<u>1,566,109</u>	<u>1,644,266</u>
Total Liabilities and Equity	<u><u>\$ 3,512,498</u></u>	<u><u>\$ 3,656,371</u></u>

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

Consolidated Statements of Operations and Comprehensive Income
(\$ in thousands, except share and per share data)

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Minimum rent	\$ 273,444	\$ 274,059	\$ 263,794
Tenant reimbursements	73,000	70,482	70,235
Other property related revenue	11,998	9,581	12,976
Fee income	377	—	—
Total revenue	358,819	354,122	347,005
Expenses:			
Property operating	49,643	47,923	49,973
Real estate taxes	43,180	42,838	40,904
General, administrative, and other	21,749	20,603	18,709
Transaction costs	—	2,771	1,550
Non-cash gain from release of assumed earnout liability	—	—	(4,832)
Impairment charge	7,411	—	1,592
Depreciation and amortization	172,091	174,564	167,312
Total expenses	294,074	288,699	275,208
Operating income	64,745	65,423	71,797
Interest expense	(65,702)	(65,577)	(56,432)
Income tax benefit (expense) of taxable REIT subsidiary	100	(814)	(186)
Non-cash gain on debt extinguishment	—	—	5,645
Gain on settlement	—	—	4,520
Other expense, net	(415)	(169)	(95)
(Loss) income before gains on sale of operating properties, net	(1,272)	(1,137)	25,249
Gains on sale of operating properties, net	15,160	4,253	4,066
Consolidated net income	13,888	3,116	29,315
Net income attributable to noncontrolling interests	(2,014)	(1,933)	(2,198)
Net income attributable to Kite Realty Group Trust	11,874	1,183	27,117
Dividends on preferred shares	—	—	(7,877)
Non-cash adjustment for redemption of preferred shares	—	—	(3,797)
Net income attributable to common shareholders	\$ 11,874	\$ 1,183	\$ 15,443
Net income per common share – basic	\$ 0.14	\$ 0.01	\$ 0.19
Net income per common share – diluted	\$ 0.14	\$ 0.01	\$ 0.18
Weighted average common shares outstanding - basic	83,585,333	83,436,511	83,421,904
Weighted average common shares outstanding - diluted	83,690,418	83,465,500	83,534,381
Dividends declared per common share	\$ 1.225	\$ 1.165	\$ 1.090
Consolidated net income	\$ 13,888	\$ 3,116	\$ 29,315
Change in fair value of derivatives	3,384	1,871	(995)
Total comprehensive income	17,272	4,987	28,320
Comprehensive income attributable to noncontrolling interests	(2,092)	(1,975)	(2,173)
Comprehensive income attributable to Kite Realty Group Trust	\$ 15,180	\$ 3,012	\$ 26,147

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

Kite Realty Group Trust
Consolidated Statements of Shareholders' Equity
(\$ in thousands, except share data)

	Preferred Shares		Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balances, December 31, 2014	4,100,000	\$ 102,500	83,490,663	\$ 835	\$ 2,044,425	\$ (1,175)	\$ (247,801)	\$ 1,898,784
Stock compensation activity	—	—	(173,798)	(2)	3,744	—	—	3,742
Other comprehensive loss attributable to Kite Realty Group Trust	—	—	—	—	—	(970)	—	(970)
Distributions declared to common shareholders	—	—	—	—	—	—	(90,899)	(90,899)
Distributions to preferred shareholders	—	—	—	—	—	—	(7,877)	(7,877)
Redemption of preferred shares	(4,100,000)	(102,500)	—	—	3,797	—	(3,797)	(102,500)
Net income attributable to Kite Realty Group Trust	—	—	—	—	—	—	27,117	27,117
Acquisition of partners' interests in consolidated joint ventures	—	—	—	—	1,445	—	—	1,445
Exchange of redeemable noncontrolling interests for common shares	—	—	18,000	—	487	—	—	487
Adjustment to redeemable noncontrolling interests	—	—	—	—	(3,353)	—	—	(3,353)
Balances, December 31, 2015	—	—	83,334,865	\$ 833	\$ 2,050,545	\$ (2,145)	\$ (323,257)	\$ 1,725,976
Stock compensation activity	—	—	67,804	1	5,042	—	—	5,043
Issuance of common shares under at-the-market plan, net	—	—	137,229	1	3,836	—	—	3,837
Other comprehensive income attributable to Kite Realty Group Trust	—	—	—	—	—	1,829	—	1,829
Distributions declared to common shareholders	—	—	—	—	—	—	(97,231)	(97,231)
Net income attributable to Kite Realty Group Trust	—	—	—	—	—	—	1,183	1,183
Exchange of redeemable noncontrolling interests for common shares	—	—	5,500	—	149	—	—	149
Adjustment to redeemable noncontrolling interests	—	—	—	—	2,788	—	—	2,788
Balances, December 31, 2016	—	—	83,545,398	\$ 835	\$ 2,062,360	\$ (316)	\$ (419,305)	\$ 1,643,574
Stock compensation activity	—	—	48,670	1	5,915	—	—	5,916
Other comprehensive income attributable to Kite Realty Group Trust	—	—	—	—	—	3,306	—	3,306
Distributions declared to common shareholders	—	—	—	—	—	—	(102,402)	(102,402)
Net income attributable to Kite Realty Group Trust	—	—	—	—	—	—	11,874	11,874
Acquisition of partner's noncontrolling interest in Fishers Station operating property	—	—	—	—	(3,750)	—	—	(3,750)
Exchange of redeemable noncontrolling interests for common shares	—	—	12,000	—	236	—	—	236
Adjustment to redeemable noncontrolling interests	—	—	—	—	6,657	—	—	6,657
Balances, December 31, 2017	—	—	83,606,068	\$ 836	\$ 2,071,418	\$ 2,990	\$ (509,833)	\$ 1,565,411

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

Consolidated Statements of Cash Flows
(\$ in thousands)

	Year Ended December 31,		
	2017	2016	2015
Cash flow from operating activities:			
Consolidated net income	\$ 13,888	\$ 3,116	\$ 29,315
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Gain on sale of operating properties, net of tax	(15,160)	(4,253)	(4,066)
Impairment charge	7,411	—	1,592
Non-cash gain on debt extinguishment	—	—	(5,645)
Loss on debt extinguishment	—	1,430	—
Straight-line rent	(4,696)	(5,453)	(5,638)
Depreciation and amortization	174,625	179,084	170,521
Provision for credit losses, net of recoveries	2,786	2,771	4,331
Compensation expense for equity awards	5,987	5,214	4,580
Amortization of debt fair value adjustment	(2,913)	(4,412)	(5,834)
Amortization of in-place lease liabilities	(3,677)	(6,863)	(3,347)
Non-cash gain from release of assumed earnout liability	—	—	(4,832)
Changes in assets and liabilities:			
Tenant receivables	(5,832)	(519)	(1,510)
Deferred costs and other assets	(12,533)	(13,509)	(6,646)
Accounts payable, accrued expenses, deferred revenue, and other liabilities	(6,228)	(388)	(903)
Payments on assumed earnout liability	—	(1,285)	(2,581)
Net cash provided by operating activities	153,658	154,933	169,337
Cash flow from investing activities:			
Acquisitions of interests in properties	—	—	(166,411)
Capital expenditures, net	(70,526)	(94,319)	(92,564)
Net proceeds from sales of operating properties	76,076	14,186	170,016
Change in construction payables	(4,276)	(3,024)	4,562
Collection of note receivable	—	500	—
Capital contribution to unconsolidated joint venture	(1,400)	—	—
Net cash used in investing activities	(126)	(82,657)	(84,397)
Cash flow from financing activities:			
Proceeds from issuance of common shares, net	—	4,402	—
Payments for redemption of preferred shares	—	—	(102,500)
Repurchases of common shares upon the vesting of restricted shares	(808)	(1,125)	(1,002)
Purchase of redeemable noncontrolling interests	—	—	(33,998)
Acquisition of partner's interest in Fishers Station operating property	(3,750)	—	—
Loan proceeds	97,700	608,301	984,303
Loan transaction costs	—	(8,084)	(4,913)
Loan payments	(129,156)	(589,501)	(835,019)
Loss on debt extinguishment	—	(1,430)	—
Distributions paid – common shareholders	(101,128)	(94,669)	(89,379)
Distributions paid – preferred shareholders	—	—	(8,582)
Distributions paid – redeemable noncontrolling interests	(3,921)	(3,924)	(3,681)
Distributions to noncontrolling interests	—	(252)	(115)
Payment for partial redemption of redeemable noncontrolling interests	(8,261)	—	—
Net cash used in financing activities	(149,324)	(86,282)	(94,886)
Increase (decrease) in cash and cash equivalents	4,208	(14,006)	(9,946)
Cash and cash equivalents, beginning of year	19,874	33,880	43,826
Cash and cash equivalents, end of year	\$ 24,082	\$ 19,874	\$ 33,880
Supplemental disclosures			
Cash paid for interest, net of capitalized interest	\$ 68,819	\$ 67,172	\$ 61,306
Cash paid for taxes	\$ —	\$ 545	\$ 281

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

	December 31, 2017	December 31, 2016
Assets:		
Investment properties, at cost	\$ 3,957,884	\$ 3,996,065
Less: accumulated depreciation	(664,614)	(560,683)
	3,293,270	3,435,382
Cash and cash equivalents	24,082	19,874
Tenant and other receivables, including accrued straight-line rent of \$31,747 and \$28,703 respectively, net of allowance for uncollectible accounts	58,328	53,087
Restricted cash and escrow deposits	8,094	9,037
Deferred costs and intangibles, net	112,359	129,264
Prepaid and other assets	16,365	9,727
Total Assets	\$ 3,512,498	\$ 3,656,371
Liabilities and Equity:		
Mortgage and other indebtedness	\$ 1,699,239	\$ 1,731,074
Accounts payable and accrued expenses	78,482	80,664
Deferred revenue and intangibles, net and other liabilities	96,564	112,202
Total Liabilities	1,874,285	1,923,940
Commitments and contingencies	—	—
Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests	72,104	88,165
Partners Equity:		
Parent Company:		
Common equity, 83,606,068 and 83,545,398 units issued and outstanding at December 31, 2017 and December 31, 2016, respectively	1,562,421	1,643,890
Accumulated other comprehensive income (loss)	2,990	(316)
Total Partners Equity	1,565,411	1,643,574
Noncontrolling Interests	698	692
Total Equity	1,566,109	1,644,266
Total Liabilities and Equity	\$ 3,512,498	\$ 3,656,371

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

Consolidated Statements of Operations and Comprehensive Income
(\$ in thousands, except unit and per unit data)

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Minimum rent	\$ 273,444	\$ 274,059	\$ 263,794
Tenant reimbursements	73,000	70,482	70,235
Other property related revenue	11,998	9,581	12,976
Fee income	377	—	—
Total revenue	<u>358,819</u>	<u>354,122</u>	<u>347,005</u>
Expenses:			
Property operating	49,643	47,923	49,973
Real estate taxes	43,180	42,838	40,904
General, administrative, and other	21,749	20,603	18,709
Transaction costs	—	2,771	1,550
Non-cash gain from release of assumed earnout liability	—	—	(4,832)
Impairment charge	7,411	—	1,592
Depreciation and amortization	172,091	174,564	167,312
Total expenses	<u>294,074</u>	<u>288,699</u>	<u>275,208</u>
Operating income	64,745	65,423	71,797
Interest expense	(65,702)	(65,577)	(56,432)
Income tax benefit (expense) of taxable REIT subsidiary	100	(814)	(186)
Non-cash gain on debt extinguishment	—	—	5,645
Gain on settlement	—	—	4,520
Other expense, net	(415)	(169)	(95)
(Loss) income before gains on sale of operating properties, net	<u>(1,272)</u>	<u>(1,137)</u>	<u>25,249</u>
Gain on sale of operating properties, net	15,160	4,253	4,066
Consolidated net income	<u>13,888</u>	<u>3,116</u>	<u>29,315</u>
Net income attributable to noncontrolling interests	(1,733)	(1,906)	(1,854)
Dividends on preferred units	—	—	(7,877)
Non-cash adjustment for redemption of preferred shares	—	—	(3,797)
Net income attributable to common unitholders	<u>\$ 12,155</u>	<u>\$ 1,210</u>	<u>\$ 15,787</u>
Allocation of net income:			
Limited Partners	\$ 281	\$ 27	\$ 344
Parent Company	11,874	1,183	15,443
	<u>\$ 12,155</u>	<u>\$ 1,210</u>	<u>\$ 15,787</u>
Net income per unit - basic	<u>\$ 0.14</u>	<u>\$ 0.01</u>	<u>\$ 0.19</u>
Net income per unit - diluted	<u>\$ 0.14</u>	<u>\$ 0.01</u>	<u>\$ 0.18</u>
Weighted average common units outstanding - basic	<u>85,566,272</u>	<u>85,374,910</u>	<u>85,219,827</u>
Weighted average common units outstanding - diluted	<u>85,671,358</u>	<u>85,403,899</u>	<u>85,332,303</u>
Distributions declared per common unit	<u>\$ 1.225</u>	<u>\$ 1.165</u>	<u>\$ 1.090</u>
Consolidated net income	\$ 13,888	\$ 3,116	\$ 29,315
Change in fair value of derivatives	3,384	1,871	(995)
Total comprehensive income	17,272	4,987	28,320
Comprehensive income attributable to noncontrolling interests	(1,733)	(1,906)	(1,854)
Comprehensive income attributable to common unitholders	<u>\$ 15,539</u>	<u>\$ 3,081</u>	<u>\$ 26,466</u>

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

Kite Realty Group, L.P. and subsidiaries
Consolidated Statements of Partner's Equity
(\$ in thousands)

	General Partner			Total
	Common Equity	Preferred Equity	Accumulated Other Comprehensive (Loss) Income	
Balances, December 31, 2014	\$ 1,797,459	\$ 102,500	\$ (1,175)	\$ 1,898,784
Stock compensation activity	3,742	—	—	3,742
Other comprehensive loss attributable to Parent Company	—	—	(970)	(970)
Distributions declared to Parent Company	(90,899)	—	—	(90,899)
Distributions to preferred unitholders	—	(7,877)	—	(7,877)
Redemption of preferred units	3,797	(102,500)	—	(98,703)
Net income	15,443	7,877	—	23,320
Acquisition of partners' interests in consolidated joint ventures	1,445	—	—	1,445
Conversion of Limited Partner Units to shares of the Parent Company	487	—	—	487
Adjustment to redeemable noncontrolling interests	(3,353)	—	—	(3,353)
Balances, December 31, 2015	<u>\$ 1,728,121</u>	<u>\$ —</u>	<u>\$ (2,145)</u>	<u>\$ 1,725,976</u>
Stock compensation activity	5,043	—	—	5,043
Capital Contribution from the General Partner	3,837	—	—	3,837
Other comprehensive income attributable to Parent Company	—	—	1,829	1,829
Distributions declared to Parent Company	(97,231)	—	—	(97,231)
Net income	1,183	—	—	1,183
Conversion of Limited Partner Units to shares of the Parent Company	149	—	—	149
Adjustment to redeemable noncontrolling interests	2,788	—	—	2,788
Balances, December 31, 2016	<u>\$ 1,643,890</u>	<u>\$ —</u>	<u>\$ (316)</u>	<u>\$ 1,643,574</u>
Stock compensation activity	5,916	—	—	5,916
Other comprehensive income attributable to Parent Company	—	—	3,306	3,306
Distributions declared to Parent Company	(102,402)	—	—	(102,402)
Net income	11,874	—	—	11,874
Acquisition of partner's interest in Fishers Station operating property	(3,750)	—	—	(3,750)
Conversion of Limited Partner Units to shares of the Parent Company	236	—	—	236
Adjustment to redeemable noncontrolling interests	6,657	—	—	6,657
Balances, December 31, 2017	<u>\$ 1,562,421</u>	<u>\$ —</u>	<u>\$ 2,990</u>	<u>\$ 1,565,411</u>

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

Consolidated Statements of Cash Flows
(\$ in thousands)

	Year Ended December 31,		
	2017	2016	2015
Cash flow from operating activities:			
Consolidated net income	\$ 13,888	\$ 3,116	\$ 29,315
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Gain on sale of operating properties, net of tax	(15,160)	(4,253)	(4,066)
Impairment charge	7,411	—	1,592
Non-cash gain on debt extinguishment	—	—	(5,645)
Loss on debt extinguishment	—	1,430	—
Straight-line rent	(4,696)	(5,453)	(5,638)
Depreciation and amortization	174,625	179,084	170,521
Provision for credit losses, net of recoveries	2,786	2,771	4,331
Compensation expense for equity awards	5,987	5,214	4,580
Amortization of debt fair value adjustment	(2,913)	(4,412)	(5,834)
Amortization of in-place lease liabilities	(3,677)	(6,863)	(3,347)
Non-cash gain from release of assumed earnout liability	—	—	(4,832)
Changes in assets and liabilities:			
Tenant receivables	(5,832)	(519)	(1,510)
Deferred costs and other assets	(12,533)	(13,509)	(6,646)
Accounts payable, accrued expenses, deferred revenue, and other liabilities	(6,228)	(388)	(903)
Payments on assumed earnout liability	—	(1,285)	(2,581)
Net cash provided by operating activities	153,658	154,933	169,337
Cash flow from investing activities:			
Acquisitions of interests in properties	—	—	(166,411)
Capital expenditures, net	(70,526)	(94,319)	(92,564)
Net proceeds from sales of operating properties	76,076	14,186	170,016
Change in construction payables	(4,276)	(3,024)	4,562
Collection of note receivable	—	500	—
Capital contribution to unconsolidated joint venture	(1,400)	—	—
Net cash used in investing activities	(126)	(82,657)	(84,397)
Cash flow from financing activities:			
Contributions from the Parent Company	—	4,402	—
Payments for redemption of preferred units	—	—	(102,500)
Distributions to the Parent Company for repurchases of common shares upon the vesting of restricted shares	(808)	(1,125)	(1,002)
Purchase of redeemable noncontrolling interests	—	—	(33,998)
Acquisition of partner's interest in Fishers Station operating property	(3,750)	—	—
Loan proceeds	97,700	608,301	984,303
Loan transaction costs	—	(8,084)	(4,913)
Loan payments	(129,156)	(589,501)	(835,019)
Loss on debt extinguishment	—	(1,430)	—
Distributions paid – common unitholders	(101,128)	(94,669)	(89,379)
Distributions paid – preferred unitholders	—	—	(8,582)
Distributions paid – redeemable noncontrolling interests	(3,921)	(3,924)	(3,681)
Distributions to noncontrolling interests	—	(252)	(115)
Payment for partial redemption of redeemable noncontrolling interests	(8,261)	—	—
Net cash used in financing activities	(149,324)	(86,282)	(94,886)
Increase (decrease) in cash and cash equivalents	4,208	(14,006)	(9,946)
Cash and cash equivalents, beginning of year	19,874	33,880	43,826
Cash and cash equivalents, end of year	\$ 24,082	\$ 19,874	\$ 33,880
Supplemental disclosures			
Cash paid for interest, net of capitalized interest	\$ 68,819	\$ 67,172	\$ 61,306
Cash paid for taxes	\$ —	\$ 545	\$ 281

Kite Realty Group Trust and Kite Realty Group, L.P. and subsidiaries
Notes to Consolidated Financial Statements
December 31, 2017
(\$ 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, 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 December 31, 2017 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 December 31, 2017, we owned interests in 117 operating and redevelopment properties totaling approximately 23.3 million square feet. We also owned two development projects under construction as of this date.

At December 31, 2016, we owned interests in 119 operating and redevelopment properties totaling approximately 23.4 million square feet. We also owned two development projects under construction as of this date.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reported period. Actual results could differ from these estimates.

Components of Investment Properties

The Company's investment properties as of December 31, 2017 and December 31, 2016 were as follows:

(\$ in thousands)

	Balance at	
	December 31, 2017	December 31, 2016
Investment properties, at cost:		
Land, buildings and improvements	\$ 3,873,149	\$ 3,885,223
Furniture, equipment and other	8,453	7,246
Land held for development	31,142	34,171
Construction in progress	45,140	69,425
	<u>\$ 3,957,884</u>	<u>\$ 3,996,065</u>

Consolidation and Investments in Joint Ventures

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

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

In determining whether to consolidate a VIE with the Operating Partnership, we consider all relationships between the Operating Partnership and the applicable VIE, including development agreements, management agreements and other contractual arrangements, in determining whether we have the power to direct the activities of the VIE that most significantly affect the VIE’s performance. As of December 31, 2017, we owned investments in three joint ventures that were VIEs in which the partners did not have substantive participating rights and we were the primary beneficiary. As of this date, these VIEs had total debt of \$238.8 million, which were secured by assets of the VIEs totaling \$497.5 million. The Operating Partnership guarantees the debt of these VIEs.

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

Embassy Suites at the University of Notre Dame

In December 2017, we formed a new joint venture with an unrelated third party to develop and own an Embassy Suites full-service hotel next to our Eddy Street Commons operating property at the University of Notre Dame. For the year ended December 31, 2017, we recorded fee income of \$0.4 million. We contributed \$1.4 million of cash to the joint venture in return for a 35% ownership interest in the venture. The joint venture has entered into a \$33.8 million construction loan, against which no amount was drawn as of December 31, 2017. The joint venture is not considered a VIE. We are accounting for the joint

venture under the equity method as both members have substantive participating rights and we do not control the activities of the venture.

Fishers Station Operating Property

In March 2017, we acquired our partner's noncontrolling interest in our Fishers Station operating property for \$3.8 million. The transaction increased our controlling interest to 100% and was accounted for through equity in the consolidated statement of shareholders' equity.

Cornelius Gateway Operating Property

In 2015, we sold our Cornelius Gateway operating property that was owned in a consolidated joint venture. The loss, which was not material and is included in "gains on sale of operating properties, net" in the accompanying consolidated statement of operations, was allocated 80% and 20% between us and our partner in accordance with the joint venture's operating agreement.

Beacon Hill Operating Property

In 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.

Acquisition of Real Estate Properties

Upon acquisition of real estate operating properties, we estimate the fair value of acquired identifiable tangible assets and identified intangible assets and liabilities, assumed debt, and any noncontrolling interest in the acquiree at the date of acquisition, based on evaluation of information and estimates available at that date. Based on these estimates, we record the estimated fair value to the applicable assets and liabilities. In making estimates of fair values, a number of sources are utilized, including information obtained as a result of pre-acquisition due diligence, marketing and leasing activities. The estimates of fair value were determined to have primarily relied upon Level 2 and Level 3 inputs, as defined below.

Fair value is determined for tangible assets and intangibles, including:

- the fair value of the building on an as-if-vacant basis and the fair value of land determined either by comparable market data, real estate tax assessments, independent appraisals or other relevant data;
- above-market and below-market in-place lease values for acquired properties, which are based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the leases. Any below-market renewal options are also considered in the in-place lease values. The capitalized above-market and below-market lease values are amortized as a reduction of or addition to rental income over the term of the lease. Should a tenant vacate, terminate its lease, or otherwise notify us of its intent to do so, the unamortized portion of the lease intangibles would be charged or credited to income;
- the value of having a lease in place at the acquisition date. We utilize independent and internal sources for our estimates to determine the respective in-place lease values. Our estimates of value are made using methods similar to those used by independent appraisers. Factors we consider in our analysis include an estimate of costs to execute similar leases including tenant improvements, leasing commissions and foregone costs and rent received during the estimated lease-up period as if the space was vacant. The value of in-place leases is amortized to expense over the remaining initial terms of the respective leases; and
- the fair value of any assumed financing that is determined to be above or below market terms. We utilize third party and independent sources for our estimates to determine the respective fair value of each mortgage

payable. The fair market value of each mortgage payable is amortized to interest expense over the remaining initial terms of the respective loan.

We also consider whether there is any value to in-place leases that have a related customer relationship intangible value. Characteristics we consider in determining these values include the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality, and expectations of lease renewals, among other factors. To date, a tenant relationship has not been developed that is considered to have a current intangible value.

We finalize the measurement period of our business combinations when all facts and circumstances are understood, but in no circumstances will the measurement period exceed one year.

Investment Properties

Capitalization and Depreciation

Investment properties are recorded at cost and include costs of land acquisition, development, pre-development, construction, certain allocated overhead, tenant allowances and improvements, and interest and real estate taxes incurred during construction. Significant renovations and improvements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. If a tenant vacates a space prior to the lease expiration, terminates its lease, or otherwise notifies the Company of its intent to do so, any related unamortized tenant allowances are expensed over the shortened lease period. Maintenance and repairs that do not extend the useful lives of the respective assets are reflected in property operating expense.

Pre-development costs are incurred prior to vertical construction and for certain land held for development during the due diligence phase and include contract deposits, legal, engineering, cost of internal resources and other professional fees related to evaluating the feasibility of developing or redeveloping a shopping center or other project. These pre-development costs are capitalized and included in construction in progress in the accompanying consolidated balance sheets. If we determine that the completion of a development project is no longer probable, all previously incurred pre-development costs are immediately expensed. Land is transferred to construction in progress once construction commences on the related project.

We also capitalize costs such as land acquisition, building construction, interest, real estate taxes, and the costs of personnel directly involved with the development of our properties. As a portion of a development property becomes operational, we expense a pro rata amount of related costs.

Depreciation on buildings and improvements is provided utilizing the straight-line method over estimated original useful lives ranging from 10 to 35 years. Depreciation on tenant allowances and tenant improvements are provided utilizing the straight-line method over the term of the related lease. Depreciation on equipment and fixtures is provided utilizing the straight-line method over 5 to 10 years. Depreciation may be accelerated for a redevelopment project including partial demolition of existing structure after the asset is assessed for impairment.

Impairment

Management reviews operational and development projects, land parcels and intangible assets for impairment on at least a quarterly basis or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The review for possible impairment requires management to make certain assumptions and estimates and requires significant judgment. Impairment losses for investment properties and intangible assets are measured when the undiscounted cash flows estimated to be generated by the investment properties during the expected holding period are less than the carrying amounts of those assets. Impairment losses are recorded as the excess of the carrying value over the estimated fair value of the asset. Our impairment review for land and development properties assumes we have the intent and the ability to complete the

developments or projected uses for the land parcels. If we determine those plans will not be completed or our assumptions with respect to operating assets are not realized, an impairment loss may be appropriate.

Held for Sale and Discontinued Operations

Operating properties will be classified as held for sale only when those properties are available for immediate sale in their present condition and for which management believes it is probable that a sale of the property will be completed within one year, among other factors. Operating properties classified as held for sale are carried at the lower of cost or fair value less estimated costs to sell. Depreciation and amortization are suspended during the held-for-sale period.

Escrow Deposits

Escrow deposits consist of cash held for real estate taxes, property maintenance, insurance and other requirements at specific properties as required by lending institutions and certain municipalities.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of 90 days or less to be cash and cash equivalents. From time to time, such investments may temporarily be held in accounts that are in excess of FDIC and SIPC insurance limits; however the Company attempts to limit its exposure at any one time.

Fair Value Measurements

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

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

- Level 1 fair value inputs are quoted prices in active markets for identical instruments to which we have access.
- Level 2 fair value inputs are inputs other than quoted prices included in Level 1 that are observable for similar instruments, either directly or indirectly, and appropriately consider counterparty creditworthiness in the valuations.
- Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an instrument at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. As discussed in Note 10 to the Financial Statements, we have determined that derivative valuations are classified in Level 2 of the fair value hierarchy.

Cash and cash equivalents, accounts receivable, escrows and deposits, and other working capital balances approximate fair value.

Note 7 to the Financial Statements includes a discussion of the fair values recorded for assets acquired and liabilities assumed. Note 8 to the Financial Statements includes a discussion of the fair values recorded when we recognized impairment

charges in 2017 and 2015. Level 3 inputs to these transactions include our estimations of market leasing rates, tenant-related costs, discount rates, and disposal values.

Derivative Financial Instruments

The Company accounts for its derivative financial instruments at fair value calculated in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Gains or losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. We use derivative instruments such as interest rate swaps or rate locks to mitigate interest rate risk on related financial instruments.

Changes in the fair values of derivatives that qualify as cash flow hedges are recognized in other comprehensive income (“OCI”) while any ineffective portion of a derivative’s change in fair value is recognized immediately in earnings. Gains and losses associated with the transaction are recorded in OCI and amortized over the underlying term of the hedged transaction. As of December 31, 2017 and 2016, all of our derivative instruments qualify for hedge accounting.

Revenue Recognition

As a lessor of real estate assets, the Company retains substantially all of the risks and benefits of ownership and accounts for its leases as operating leases.

Contractual rent, percentage rent, and expense reimbursements from tenants for common area maintenance costs, insurance and real estate taxes are our principal sources of revenue. Base minimum rents are recognized on a straight-line basis over the terms of the respective leases. Certain lease agreements contain provisions that grant additional rents based on a tenant’s sales volume (contingent overage rent). Overage rent is recognized when tenants achieve the specified sales targets as defined in their lease agreements. Overage rent is included in other property related revenue in the accompanying consolidated statements of operations. As a result of generating this revenue, we will routinely have accounts receivable due from tenants. We are subject to tenant defaults and bankruptcies that may affect the collection of outstanding receivables. To address the collectability of these receivables, we analyze historical write-off experience, tenant credit-worthiness and current economic trends when evaluating the adequacy of our allowance for uncollectible accounts and straight line rent reserve. Although we estimate uncollectible receivables and provide for them through charges against income, actual experience may differ from those estimates.

Gains or losses from sales of real estate have historically been recognized when a sale has been consummated, the buyer’s initial and continuing investment is adequate to demonstrate a commitment to pay for the asset, we have transferred to the buyer the usual risks and rewards of ownership, and we do not have a substantial continuing financial involvement in the property. As part of our ongoing business strategy, we will, from time to time, sell land parcels and outlots, some of which are ground leased to tenants. Net gains realized on such sales were \$5.2 million, \$3.9 million, and \$5.6 million for the years ended December 31, 2017, 2016, and 2015, respectively, and are classified as other property related revenue in the accompanying consolidated statements of operations.

Tenant and Other Receivables and Allowance for Uncollectible Accounts

Tenant receivables consist primarily of billed minimum rent, accrued and billed tenant reimbursements, and accrued straight-line rent. The Company generally does not require specific collateral from its tenants other than corporate or personal guarantees. Other receivables consist primarily of amounts due from municipalities and from tenants for non-rental revenue related activities.

An allowance for uncollectible accounts is maintained for estimated losses resulting from the inability of certain tenants or others to meet contractual obligations under their lease or other agreements. Accounts are written off when, in the opinion of management, the balance is uncollectible.

(\$ in thousands)	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 3,998	\$ 4,325	\$ 2,433
Provision for credit losses, net of recoveries	2,786	2,771	4,331
Accounts written off and other	(3,297)	(3,098)	(2,439)
Balance, end of year	<u>\$ 3,487</u>	<u>\$ 3,998</u>	<u>\$ 4,325</u>

For the years ended December 31, 2017, 2016 and 2015, the provision for credit losses, net of recoveries, represented 0.8%, 0.8% and 1.2% of total revenues, respectively.

Concentration of Credit Risk

We may be subject to concentrations of credit risk with regards to our cash and cash equivalents. We place cash and temporary cash investments with high-credit-quality financial institutions. From time to time, such cash and investments may temporarily be in excess of insurance limits.

In addition, our accounts receivable from and leases with tenants potentially subjects us to a concentration of credit risk related to our accounts receivable and revenue.

Total billed receivables due from tenants leasing space in the states of Florida, Indiana, and Texas, consisted of the following as of December 31, 2017 and 2016:

(\$ in thousands)	<u>As of December 31, 2017</u>	
	<u>2017</u>	<u>2016</u>
Florida	61%	53%
Indiana	9%	7%
Texas	4%	2%

For the years ended December 31, 2017, 2016, and 2015, the Company's revenue recognized from tenants leasing space in the states of Florida, Indiana, and Texas, were as follows:

(\$ in thousands)	<u>Year Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Florida	24%	25%	25%
Indiana	14%	15%	14%
Texas	13%	13%	12%

Earnings Per Share

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

Potentially dilutive securities include outstanding options to acquire common shares; Limited Partner Units, which may be exchanged for either cash or common shares, at the Parent Company's option and under certain circumstances; units under our Outperformance Incentive Compensation Plan ("Outperformance Plan"); and deferred common share units, which may be credited to the personal accounts of non-employee trustees in lieu of the payment of cash compensation or the issuance of common

shares to such trustees. Limited Partner Units have been omitted from the Parent Company's denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the denominator would have no dilutive impact. Weighted average Limited Partner Units outstanding for the years ended December 31, 2017, 2016 and 2015 were 2.0 million, 1.9 million and 1.8 million, respectively.

Approximately 0.1 million outstanding options to acquire common shares were excluded from the computations of diluted earnings per share or unit because their impact was not dilutive for each of the twelve months ended December 31, 2017, 2016 and 2015.

Segment Reporting

Our primary business is the ownership and operation of neighborhood and community shopping centers. We do not distinguish or group our operations on a geographical basis, or any other basis, when measuring and evaluating financial performance. Accordingly, we have one operating segment, which also serves as our reportable segment for disclosure purposes in accordance with GAAP.

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 taxable REIT subsidiary.

Noncontrolling Interests

We report the non-redeemable noncontrolling interests in subsidiaries as equity and the amount of consolidated net income attributable to these noncontrolling interests is set forth separately in the consolidated financial statements. The non-redeemable noncontrolling interests in consolidated properties for the years ended December 31, 2017, 2016, and 2015 were as follows:

(\$ in thousands)	<u>2017</u>	<u>2016</u>	<u>2015</u>
Noncontrolling interests balance January 1	\$ 692	\$ 773	\$ 3,364
Net income allocable to noncontrolling interests, excluding redeemable noncontrolling interests	6	171	111
Distributions to noncontrolling interests	—	(252)	(115)
Acquisition of partner's interest in Beacon Hill operating property	—	—	(2,353)
Partner's share of loss on sale of Cornelius Gateway operating property	—	—	(234)
Noncontrolling interests balance at December 31	<u>\$ 698</u>	<u>\$ 692</u>	<u>\$ 773</u>

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 December 31, 2017, and 2016, the redemption value of the redeemable noncontrolling interests in the Operating Partnership exceeded the historical book value, and the balance was accordingly adjusted to redemption value.

We allocate net operating results of the Operating Partnership after noncontrolling interests in the consolidated properties based on the partners' respective weighted average ownership interest. We adjust the redeemable noncontrolling interests in the Operating Partnership at the end of each reporting period to reflect their interests in the Operating Partnership or redemption value. This adjustment is reflected in our shareholders' and Parent Company's equity. For the years ended December 31, 2017, 2016, and 2015, the weighted average interests of the Parent Company and the limited partners in the Operating Partnership were as follows:

	<u>Year Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Parent Company's weighted average interest in Operating Partnership	97.7%	97.7%	97.9%
Limited partners' weighted average interests in Operating Partnership	2.3%	2.3%	2.1%

At December 31, 2017 and December 31, 2016, the Parent Company's interest and the limited partners' redeemable noncontrolling ownership interests in the Operating Partnership were 97.7% and 2.3% as of the end of each period presented.

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

There were 1,974,830 and 1,942,340 Limited Partner Units outstanding as of December 31, 2017 and 2016, respectively. The increase in Limited Partner Units outstanding from December 31, 2016 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 our 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. A portion of the Class B units became redeemable at our partner's election in March 2017, and the remaining Class B units will become redeemable at our partner's election in October 2022 based on the applicable joint venture and the fulfillment of certain redemption criteria. Beginning in December 2020 and November 2022, with respect to the applicable joint venture, the Class B units can be redeemed at the election of either our partner or us for cash or Limited Partner Units in the Operating Partnership. None of the issued Class B units have a maturity date and none are mandatorily redeemable unless either party has elected for the units to be redeemed. We consolidate these joint ventures because we control the decision making of each of the joint ventures and our joint venture partners have limited protective rights.

In March 2017, certain Class B unit holders exercised their right to redeem \$8.3 million of their Class B units for cash. We funded the redemption using operating cash flows in December 2017.

In 2015, we acquired our partner's redeemable interest in our City Center operating property for \$34.0 million and other non-redeemable rights and interests held by our partner for \$0.4 million. We funded this acquisition in part with a \$30 million draw on our unsecured revolving credit facility with the remainder funded by the issuance of Limited Partner Units in the Operating Partnership. As a result of this transaction, our guarantee of a \$26.6 million loan on behalf of LC White Plains Retail, LLC and LC White Plains Recreation, LLC was terminated.

We classify the remainder of the redeemable noncontrolling interests in certain subsidiaries in the accompanying consolidated balance sheets outside of permanent equity because, under certain circumstances, we may be required to pay cash to Class B unitholders in specific subsidiaries upon redemption of their interests. The carrying amount of these redeemable noncontrolling interests is required to be reflected at the greater of initial book value or redemption value with a corresponding adjustment to additional paid-in capital. As of December 31, 2017 and 2016, the redemption amounts of these interests did not exceed their fair value, nor did they exceed the initial book value.

The redeemable noncontrolling interests in the Operating Partnership and subsidiaries for the years ended December 31, 2017, 2016, and 2015 were as follows:

(\$ in thousands)	2017	2016	2015
Redeemable noncontrolling interests balance January 1	\$ 88,165	\$ 92,315	\$ 125,082
Acquisition of partner's interest in City Center operating property	—	—	(33,998)
Net income allocable to redeemable noncontrolling interests	2,009	1,756	2,087
Distributions declared to redeemable noncontrolling interests	(4,155)	(3,993)	(3,773)
Payment for partial redemption of redeemable noncontrolling interests	(8,261)	—	—
Other, net including adjustments to redemption value	(5,654)	(1,913)	2,917
Total limited partners' interests in Operating Partnership and other redeemable noncontrolling interests balance at December 31	<u>\$ 72,104</u>	<u>\$ 88,165</u>	<u>\$ 92,315</u>
Limited partners' interests in Operating Partnership	\$ 39,573	\$ 47,373	\$ 50,085
Other redeemable noncontrolling interests in certain subsidiaries	32,531	40,792	42,230
Total limited partners' interests in Operating Partnership and other redeemable noncontrolling interests balance at December 31	<u>\$ 72,104</u>	<u>\$ 88,165</u>	<u>\$ 92,315</u>

Effects of Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing GAAP revenue recognition guidance. It will also affect the existing GAAP guidance governing the sale of nonfinancial assets. The new standard's core principle is that a company will recognize revenue when it satisfies performance obligations by transferring promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations. In doing so, companies will need to exercise more judgment and make more estimates than under existing GAAP guidance.

Under this standard, entities will now generally recognize the sale, and any associated gain or loss, of a real estate property when control of the property transfers, as long as collectability of the consideration is probable.

We have preliminarily evaluated our revenue streams and estimate that less than 1% of our recurring revenue will be impacted by this new standard upon its initial adoption. Additionally, we have historically disposed of property and land in all-cash transactions with no continuing future involvement in the operations of the property and, therefore, we do not expect the new standard to significantly impact our recognition of property and land sales. For the year ended December 31, 2017, we disposed of several operating properties and land parcels in all-cash transactions with no continuing future involvement. The gains recognized were approximately 6% of our total revenue for the year ended December 31, 2017. As we do not have any continuing involvement in the operations of the operating properties and land sold, the accounting for the transactions would have been the same under ASC 2014-09.

ASU 2014-09 is effective for public entities for annual and interim reporting periods beginning after December 15, 2017. ASU 2014-09 allows for either recognizing the cumulative effect of application (i) at the start of the earliest comparative period presented (with the option to use any or all of three practical expedients) or (ii) as a cumulative effect adjustment as of the date of initial application, with no restatement of comparative periods presented. We expect to adopt ASU 2014-09 using the modified retrospective approach.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making certain changes to lessor accounting, including the accounting for sales-type and direct financing leases. ASU 2016-02 will be effective for annual and interim reporting periods beginning on or after December 15, 2018, with early adoption permitted. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. As a result of the adoption of ASU 2016-02, we expect common area maintenance

reimbursements that are of a fixed nature to be recognized on a straight line basis over the term of the lease as these tenant reimbursements will be considered a non-lease component and will be subject to ASU 2014-09. In January 2018, the FASB issued a proposed ASU related to ASC 842. The update would allow lessors to use a practical expedient to account for non-lease components and related lease components as a single lease component instead of accounting for them separately, if certain conditions are met. This proposal is currently under consideration by regulators. We also expect to recognize right of use assets on our balance sheet related to certain ground leases where we are the lessee. Upon adoption of the standard, we anticipate recognizing a right of use asset currently estimated to be between \$35 million and \$40 million. In addition to evaluating the impact of adopting the new accounting standard on our consolidated financial statements, we are evaluating our existing lease contracts and compensation structure, as well as our current and future information system capabilities.

The new leasing standard also amends ASC 340-40, *Other Assets and Deferred Costs - Contracts with Customers*. Under ASC 340-40, incremental costs of obtaining a contract are recognized as an asset if the entity expects to recover them, which will reduce the leasing costs currently capitalized. Upon adoption of the new standard, we expect a reduction in certain capitalized costs and a corresponding increase in general, administrative, and other expense and a decrease in amortization expense on our consolidated statement of operations, but the magnitude of that change is dependent upon certain variables currently under evaluation, including the compensation structure in place upon adoption.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 amends the existing accounting standards for business combinations, by providing a screen to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the assets and activities are not a business. This screen reduces the number of transactions that will likely qualify as business combinations. ASU 2017-01 will be effective for annual and interim reporting periods beginning on or after December 15, 2017, with early adoption permitted. We adopted ASU 2017-01 in the first quarter of 2017. We expect that future acquisitions of single investment properties or a portfolio of investment properties will likely not meet the definition of a business and, in such event, direct transaction costs will be capitalized.

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

Note 3. Gain on Settlement

In June 2015, we received \$4.75 million to settle a dispute related to eminent domain and related damages at one of our operating properties. The settlement agreement did not restrict our use of the proceeds. These proceeds, net of certain costs, are included in gain on settlement within the consolidated statement of operations for the year ended December 31, 2015. We used the net proceeds to pay down the secured loan at this operating property.

Note 4. Share-Based Compensation

Overview

The Company's 2013 Equity Incentive Plan (the "Plan") authorizes options to acquire common shares and other share-based compensation awards to be granted to employees and trustees for up to an additional 1,500,000 common shares of the Company. The Company accounts for its share-based compensation in accordance with the fair value recognition provisions provided under Topic 718—"Stock Compensation" in the Accounting Standards Codification.

The total share-based compensation expense, net of amounts capitalized, included in general and administrative expenses for the years ended December 31, 2017, 2016, and 2015 was \$5.8 million, \$5.1 million, and \$4.4 million, respectively. For the years ended December 31, 2017, 2016, and 2015, total share-based compensation cost capitalized for development and leasing activities was \$1.7 million, \$1.5 million, and \$1.0 million, respectively.

As of December 31, 2017, there were 717,053 shares and units available for grant under the Plan.

Share Options

Pursuant to the Plan, the Company may periodically grant options to purchase common shares at an exercise price equal to the grant date fair value of the Company's common shares. Granted options typically vest over a five year period and expire 10 years from the grant date. The Company issues new common shares upon the exercise of options.

A summary of option activity under the Plan as of December 31, 2017, and changes during the year then ended, is presented below:

(\$ in thousands, except share and per share data)	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term (in years)	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2017			182,462	\$ 37.58
Granted			—	—
Exercised			—	—
Expired			—	—
Forfeited			(1,250)	10.56
Outstanding at December 31, 2017	\$ 211,809	0.88	<u>181,212</u>	<u>\$ 37.77</u>
Exercisable at December 31, 2017	\$ 211,809	0.88	<u>181,212</u>	<u>\$ 37.77</u>
Exercisable at December 31, 2016			<u>182,378</u>	<u>\$ 37.60</u>

There were no options granted in 2017, 2016 or 2015.

The aggregate intrinsic value of the 47,591 options exercised during the year ended December 31, 2016 was \$0.8 million.

Restricted Shares

In addition to share option grants, the Plan also authorizes the grant of share-based compensation awards in the form of restricted common shares. Under the terms of the Plan, these restricted shares, which are considered to be outstanding shares from the date of grant, typically vest over a period ranging from three to five years. The Company pays dividends on restricted shares and such dividends are charged directly to shareholders' equity.

The following table summarizes all restricted share activity to employees and non-employee members of the Board of Trustees as of December 31, 2017 and changes during the year then ended:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value per share
Restricted shares outstanding at January 1, 2017	291,608	\$ 26.10
Shares granted	85,150	22.15
Shares forfeited	(397)	26.24
Shares vested	(117,254)	26.11
Restricted shares outstanding at December 31, 2017	<u>259,107</u>	<u>\$ 24.80</u>

The following table summarizes the restricted share grants and vestings during the years ended December 31, 2017, 2016, and 2015:

(\$ in thousands, except share and per share data)	Number of Restricted Shares Granted	Weighted Average Grant Date Fair Value per share	Fair Value of Restricted Shares Vested
2017	85,150	\$ 22.15	\$ 2,529
2016	81,603	26.87	3,313
2015	121,075	28.10	2,948

As of December 31, 2017, there was \$4.2 million of total unrecognized compensation cost related to restricted shares granted under the Plan, which is expected to be recognized in the consolidated statements of operations over a weighted-average period of 1.37 years. We expect to incur \$2.1 million of this expense in 2018, \$1.1 million in 2019, \$0.6 million in 2020, \$0.3 million in 2021, and the remainder in 2022.

Outperformance Plans

The Compensation Committee of the Board of Trustees (the “Compensation Committee”) previously adopted outperformance plans to further align the interests of our shareholders and management by encouraging our senior officers and other key employees to “outperform” and to create shareholder value. In 2014, the Compensation Committee adopted the 2014 Kite Realty Group Trust Outperformance Incentive Compensation Plan (the “2014 OPP”) under the Plan and the partnership agreement of our Operating Partnership for members of executive management and certain other employees, pursuant to which participants are eligible to earn profit interests (“LTIP Units”) in the Operating Partnership based on the achievement of certain performance criteria related to the Company’s common shares. The 2014 OPP was adopted mid-year and the OPP awards granted at that time were intended to encompass OPP awards for both the 2014 and 2015 fiscal years. As a result, the Compensation Committee did not adopt an outperformance incentive compensation plan in 2015. No awards were granted under the 2014 OPP in the 2015 fiscal year.

In 2016, the Compensation Committee adopted the 2016 Kite Realty Group Trust Outperformance Incentive Compensation Plan (the “2016 OPP”) under the Plan and the partnership agreement of our Operating Partnership. Upon the adoption of the 2016 OPP, the Compensation Committee granted individual awards in the form of LTIP units that, subject to vesting and the satisfaction of other conditions, are exchangeable on a par unit value equal to the then trading price of one of our common shares. The terms of the 2016 OPP are similar to the terms of the 2014 OPP.

The Compensation Committee did not adopt an outperformance incentive compensation plan in the 2017 fiscal year.

In 2014 and 2016, participants in the 2014 OPP and the 2016 OPP were awarded the right to earn, in the aggregate, up to \$7.5 million and up to \$6.0 million of share-settled awards (the “bonus pool”) if, and only to the extent which, our total shareholder return (“TSR”) performance measures are achieved for the three-year period beginning July 1, 2014 and ending June 30, 2017 and for the three-year period beginning January 4, 2016 and ending December 31, 2018, respectively. Awarded interests not earned based on the TSR measures are forfeited.

If the TSR performance measures are achieved at the end of each three-year performance period, participants will receive their percentage interest in the bonus pool as LTIP Units in the Operating Partnership. Such LTIP Units vest over an additional two-year service period. The compensation cost of the 2014 and 2016 Outperformance Plans were fixed as of the grant date and will be recognized regardless of whether the LTIP Units are ultimately earned, assuming the service requirement is met.

The TSR performance measures were not achieved for the 2014 OPP and all potential awards were forfeited in 2017.

The 2014 and 2016 awards were valued at an aggregate value of \$2.3 million and \$1.9 million, respectively, utilizing a Monte Carlo model simulation that takes into account various assumptions including the nature and history of the Company, financial and economic conditions affecting the Company, past results, current operations and future prospects of the Company, the historical TSR and total return volatility of the SNL U.S. REIT Index, price return volatility, dividend yields of the Company's common shares and the terms of the awards. We expect to incur \$0.8 million of this expense in 2018, \$0.4 million in 2019 and \$0.1 million in 2020.

Performance Awards

In 2015, the Compensation Committee established overall target values for incentive compensation for each executive officer, with 50% of the target value being granted in the form of time-based restricted share awards and the remaining 50% being granted in the form of three-year performance share awards.

Time-based restricted share awards were made on a discretionary basis in 2016 and 2017 based on review of each prior year's performance.

In 2015 and 2016, the Compensation Committee awarded each of the four named executive officers a three-year performance award in the form of restricted performance share units ("PSUs"). The 2015 PSUs may be earned over a three-year performance period from January 1, 2015 to December 31, 2017 and the 2016 PSUs may be earned over a three-year performance period from January 1, 2016 to December 31, 2018. The performance criteria will be based on the relative total shareholder return ("TSR") achieved by the Company measured against a peer group over the three-year measurement period. Any PSUs earned at the end of the three-year period will be fully vested at that date. The total number of PSUs issued each year to the executive officers was based on a target value of \$1.0 million, but may be earned in a range from 0% to 200% of the target value depending on our TSR over the measurement period in relation to the peer group. Based on the relative TSR over the 2015 PSU measurement period, we do not expect any PSUs to be earned and awarded to our executive officers in 2018.

In 2017, the Compensation Committee awarded each of the four named executive officers a three-year performance award in the form of PSUs. The PSUs may be earned over a three-year performance period from January 1, 2017 to December 31, 2019. The performance criteria will be based 50% on the absolute TSR achieved by the Company over the three-year measurement period and 50% on the relative TSR achieved by the Company measured against a peer group over the three-year measurement period. The total number of PSUs issued to the executive officers was based on a target value of \$2.0 million, but may be earned in a range from 0% to 200% of the target value depending on our absolute TSR over the measurement period and our relative TSR over the measurement period in relation to the peer group.

The 2017, 2016 and 2015 PSUs were valued at an aggregate value of \$2.2 million, \$1.3 million and \$1.1 million, respectively, utilizing a Monte Carlo simulation. We expect to incur \$1.2 million of this expense in 2018, \$0.8 million in 2019 and less than \$0.1 million in 2020.

The following table summarizes the activity for time-based restricted unit awards for the year ended December 31, 2017:

	Number of Restricted Units	Weighted Average Grant Date Fair Value per unit
Restricted units outstanding at January 1, 2017	183,979	\$ 22.57
Restricted units granted	44,490	23.22
Restricted units vested	(78,021)	21.87
Restricted units outstanding at December 31, 2017	<u>150,448</u>	<u>\$ 23.13</u>

The following table summarizes the time-based restricted unit grants and vestings during the years ended December 31, 2017, 2016, and 2015:

(\$ in thousands, except unit and per unit data)	<u>Number of Restricted Units Granted</u>	<u>Weighted Average Grant Date Fair Value per Unit</u>	<u>Fair Value of Restricted Units Vested</u>
2017	44,490	\$ 23.22	\$ 1,516
2016	46,562	26.48	1,929
2015	—	—	1,694

As of December 31, 2017, there was \$2.4 million of total unrecognized compensation cost related to restricted units granted under the Plan, which is expected to be recognized in the consolidated statements of operations over a weighted-average period of 1.09 years. We expect to incur \$1.4 million of this expense in 2018, \$0.6 million in 2019, \$0.3 million in 2020, and the remainder in 2021.

Note 5. Deferred Costs and Intangibles, net

Deferred costs consist primarily of acquired lease intangible assets, broker fees and capitalized salaries and related benefits incurred in connection with lease originations. Deferred leasing costs, lease intangibles and similar costs are amortized on a straight-line basis over the terms of the related leases. At December 31, 2017 and 2016, deferred costs consisted of the following:

(\$ in thousands)	<u>2017</u>	<u>2016</u>
Acquired lease intangible assets	\$ 107,668	\$ 125,144
Deferred leasing costs and other	68,335	63,810
	<u>176,003</u>	<u>188,954</u>
Less—accumulated amortization	(63,644)	(59,690)
Total	<u>\$ 112,359</u>	<u>\$ 129,264</u>

The estimated net amounts of amortization from acquired lease intangible assets for each of the next five years and thereafter are as follows:

(\$ in thousands)	<u>Amortization of above market leases</u>	<u>Amortization of acquired lease intangible assets</u>	<u>Total</u>
2018	\$ 2,485	\$ 9,441	\$ 11,926
2019	1,251	6,905	8,156
2020	1,070	5,909	6,979
2021	806	4,756	5,562
2022	556	4,152	4,708
Thereafter	2,557	26,412	28,969
Total	<u>\$ 8,725</u>	<u>\$ 57,575</u>	<u>\$ 66,300</u>

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

(\$ in thousands)	<u>For the year ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Amortization of deferred leasing costs, lease intangibles and other	\$ 22,960	\$ 24,898	\$ 25,187
Amortization of above market lease intangibles	4,025	6,602	6,860

Note 6. Deferred Revenue, Intangibles, Net and Other Liabilities

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

At December 31, 2017 and 2016, deferred revenue, intangibles, net and other liabilities consisted of the following:

(\$ in thousands)	<u>2017</u>	<u>2016</u>
Unamortized in-place lease liabilities	\$ 83,117	\$ 95,360
Retainages payable and other	3,954	5,437
Tenant rents received in advance	9,493	11,405
Total	<u>\$ 96,564</u>	<u>\$ 112,202</u>

The amortization of below market lease intangibles is included as a component of minimum rent in the accompanying consolidated statements and was \$7.7 million, \$13.5 million and \$10.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The estimated net amounts of amortization of in-place lease liabilities and the increasing effect on minimum rent for each of the next five years and thereafter is as follows:

(\$ in thousands)	
2018	\$ 6,304
2019	4,953
2020	4,454
2021	4,132
2022	3,957
Thereafter	<u>59,317</u>
Total	<u>\$ 83,117</u>

Note 7. Acquisitions and Transaction Costs

During the years ended December 31, 2017 and 2016, we did not acquire any operating properties.

The results of operations for the properties acquired during the year ended December 31, 2015, have been included in continuing operations within our consolidated financial statements since the respective dates of their acquisition.

The fair value of the real estate and other assets acquired by the Company were primarily determined using the income approach. The income approach required us to make assumptions about market leasing rates, tenant-related costs, discount rates, and disposal values. The estimates of fair value primarily relied upon Level 2 and Level 3 inputs, as previously defined.

Historically, transaction costs have been expensed as they are incurred, regardless of whether the transaction was ultimately completed or terminated. Transaction costs generally consist of legal, lender, due diligence, and other expenses for professional services. We did not incur any transaction costs for the year ended December 31, 2017. Transaction costs for the years ended December 31, 2016 and 2015 were \$2.8 million and \$1.6 million, respectively.

In 2015, we acquired four operating properties for total consideration of \$185.8 million, including the assumption of an \$18.3 million loan, which are summarized below:

Property Name	MSA	Acquisition Date
Colleyville Downs	Dallas, TX	April 2015
Belle Isle Station	Oklahoma City, OK	May 2015
Livingston Shopping Center	Newark, NJ	July 2015
Chapel Hill Shopping Center	Fort Worth, TX	August 2015

The following table summarizes the estimation of the fair value of assets acquired and liabilities assumed for the properties acquired in 2015:

(\$ in thousands)

Investment properties, net	\$ 176,223
Lease-related intangible assets, net	17,436
Other assets	435
Total acquired assets	<u>194,094</u>
Mortgage and other indebtedness	18,473
Accounts payable and accrued expenses	2,125
Deferred revenue and other liabilities	8,269
Total assumed liabilities	<u>28,867</u>
Fair value of acquired net assets	<u>\$ 165,227</u>

The leases at the acquired properties had a weighted average remaining term at acquisition of approximately 9.4 years.

The operating properties acquired in 2015 generated revenues of \$8.8 million and a loss from continuing operations of \$1.3 million (inclusive of depreciation and amortization expense of \$5.8 million) since their respective dates of acquisition through December 31, 2015. The revenues and loss from continuing operations are included in the consolidated statement of operations for the year ended December 31, 2015.

Note 8. Disposals of Operating Properties and Impairment Charges

During the year ended December 31, 2017, we sold four operating properties for aggregate gross proceeds of \$76.1 million and a net gain of \$15.2 million. The following summarizes our 2017 operating property dispositions.

Property Name	MSA	Disposition Date
Cove Center	Stuart, FL	March 2017
Clay Marketplace	Birmingham, AL	June 2017
The Shops at Village Walk	Fort Myers, FL	June 2017
Wheatland Towne Crossing	Dallas, TX	June 2017

In connection with the preparation and review of the financial statements for the three months ended March 31, 2017, we evaluated an operating property for impairment including shortening of the intended holding period. We concluded the estimated undiscounted cash flows over the expected holding period did not exceed the carrying value of the asset. The Company estimated the fair value of the property to be \$26.0 million using Level 3 inputs within the fair value hierarchy, primarily using the market

approach. We compared the fair value measurement to the carrying value, which resulted in the recording of a non-cash impairment charge of \$7.4 million.

During the year ended December 31, 2016, we sold two operating properties for aggregate gross proceeds of \$14.2 million and a net gain of \$4.3 million. The following summarizes our 2016 operating property dispositions.

Property Name	MSA	Disposition Date
Shops at Otty	Portland, OR	June 2016
Publix at St. Cloud	St. Cloud, FL	December 2016

In 2015, we wrote off the book value of our Shops at Otty operating property and recorded a non-cash impairment charge of \$1.6 million, as the estimated undiscounted cash flows over the remaining holding period did not exceed the carrying value of the asset.

During the year ended December 31, 2015, we sold nine properties for aggregate gross proceeds of \$170.0 million and a net gain of \$4.1 million. The following summarizes our 2015 operating property dispositions.

Property Name	MSA	Disposition Date
Eastside Junction	Athens, AL	March 2015
Fairgrounds Crossing	Hot Springs, AR	March 2015
Hawk Ridge	Saint Louis, MO	March 2015
Prattville Town Center	Prattville, AL	March 2015
Regal Court	Shreveport, LA	March 2015
Whispering Ridge	Omaha, NE	March 2015
Walgreens Plaza	Jacksonville, NC	March 2015
Cornelius Gateway	Portland, OR	December 2015
Four Corner Square	Seattle, WA	December 2015

The results of all the operating properties sold in 2017, 2016 and 2015 are not included in discontinued operations in the accompanying statements of operations as none of the operating properties individually, nor in the aggregate, represent a strategic shift that has had or will have a material effect on our operations or financial results.

Note 9. Mortgage and Other Indebtedness

Mortgage and other indebtedness consisted of the following as of December 31, 2017 and 2016:

(\$ in thousands)

As of December 31, 2017

	Principal	Unamortized Net Premiums	Unamortized Debt Issuance Costs	Total
Senior Unsecured Notes—Fixed Rate				
Maturing at various dates through September 2027; interest rates ranging from 4.00% to 4.57% at December 31, 2017	\$ 550,000	\$ —	\$ (5,599)	\$ 544,401
Unsecured Revolving Credit Facility				
Matures July 2021 ¹ ; borrowing level up to \$373.8 million available at December 31, 2017; interest at LIBOR + 1.35% or 2.91% at December 31, 2017	60,100	—	(1,895)	58,205
Unsecured Term Loans				
\$200 million matures July 2021; interest at LIBOR + 1.30% or 2.86% at December 31, 2017; \$200 million matures October 2022; interest at LIBOR + 1.60% or 3.16% at December 31, 2017	400,000	—	(1,759)	398,241
Mortgage Notes Payable—Fixed Rate				
Generally due in monthly installments of principal and interest; maturing at various dates through 2030; interest rates ranging from 3.78% to 6.78% at December 31, 2017	576,927	9,196	(755)	585,368
Mortgage Notes Payable—Variable Rate				
Due in monthly installments of principal and interest; maturing at various dates through 2023; interest at LIBOR + 1.60%-2.25%, ranging from 3.16% to 3.81% at December 31, 2017	113,623	—	(599)	113,024
Total mortgage and other indebtedness	\$ 1,700,650	\$ 9,196	\$ (10,607)	\$ 1,699,239

(\$ in thousands)

As of December 31, 2016

	Principal	Unamortized Net Premiums	Unamortized Debt Issuance Costs	Total
Senior Unsecured Notes—Fixed Rate				
Maturing at various dates through September 2027; interest rates ranging from 4.00% to 4.57% at December 31, 2016	\$ 550,000	\$ —	\$ (6,140)	\$ 543,860
Unsecured Revolving Credit Facility				
Matures July 2021 ¹ ; borrowing level up to \$409.9 million available at December 31, 2016; interest at LIBOR + 1.35% ² or 2.12% at December 31, 2016	79,600	—	(2,723)	76,877
Unsecured Term Loans				
\$200 million matures July 2021; interest at LIBOR + 1.30% ² or 2.07% at December 31, 2016; \$200 million matures October 2022; interest at LIBOR + 1.60% or 2.37% at December 31, 2016	400,000	—	(2,179)	397,821
Mortgage Notes Payable—Fixed Rate				
Generally due in monthly installments of principal and interest; maturing at various dates through 2030; interest rates ranging from 3.78% to 6.78% at December 31, 2016	587,762	12,109	(994)	598,877
Mortgage Notes Payable—Variable Rate				
Due in monthly installments of principal and interest; maturing at various dates through 2023; interest at LIBOR + 1.60%-2.25%, ranging from 2.37% to 3.02% at December 31, 2016	114,388	—	(749)	113,639
Total mortgage and other indebtedness	\$ 1,731,750	\$ 12,109	\$ (12,785)	\$ 1,731,074

- 1 This presentation reflects the Company's exercise of its options to extend the maturity date for two additional periods of six months each, subject to certain conditions.
- 2 The interest rates on our unsecured revolving credit facility and unsecured term loan varied at certain parts of the year due to provisions in the agreement and the amendment and restatement of the agreement.

The one month LIBOR interest rate was 1.56% and 0.77% as of December 31, 2017 and 2016, respectively.

Debt Issuance Costs

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

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

(\$ in thousands)	For the year ended December 31,		
	2017	2016	2015
Amortization of debt issuance costs	\$ 2,534	\$ 4,521	\$ 3,209

Unsecured Revolving Credit Facility and Unsecured Term Loans

We have an unsecured revolving credit facility (the "Credit Facility") with a total commitment of \$500 million that matures in July 2021 (inclusive of the exercise of our option to extend the maturity date by one year), a \$200 million unsecured term loan maturing in July 2021 ("Term Loan") and a \$200 million seven-year unsecured term loan maturing in October 2022.

The Operating Partnership has the option to increase the borrowing availability of the Credit Facility to \$1 billion and, the option to increase the Term Loan to provide for an additional \$200 million, in each case subject to certain conditions, including obtaining commitments from one or more lenders.

As of December 31, 2017, \$60.1 million was outstanding under the Credit Facility. Additionally, we had letters of credit outstanding which totaled \$6.3 million, against which no amounts were advanced as of December 31, 2017.

The amount that we may borrow under our Credit Facility is limited by the value of the assets in our unencumbered asset pool. As of December 31, 2017, the value of the assets in our unencumbered asset pool, calculated pursuant to the Credit Facility agreement, was \$1.4 billion. Taking into account outstanding borrowings on the line of credit, term loans, unsecured notes and letters of credit, we had \$373.8 million available under our Credit Facility for future borrowings as of December 31, 2017.

Our ability to borrow under the Credit Facility is subject to our compliance with various restrictive and financial covenants, including with respect to liens, indebtedness, investments, dividends, mergers and asset sales. As of December 31, 2017, we were in compliance with all such covenants.

Senior Unsecured Notes

The Operating Partnership has \$550 million of senior unsecured notes maturing at various dates through September 2027 (the "Notes"). The Notes contain a number of customary financial and restrictive covenants. As of December 31, 2017, we were in compliance with all such covenants.

Mortgage Loans

Mortgage loans are secured by certain real estate and in some cases by guarantees from the Operating Partnership, and are generally due in monthly installments of interest and principal and mature over various terms through 2030.

Debt Maturities

The following table presents maturities of mortgage debt and corporate debt as of December 31, 2017:

(\$ in thousands)	Scheduled Principal Payments	Term Maturities ¹	Total
2018	\$ 5,635	\$ 37,584	\$ 43,219
2019	5,975	—	5,975
2020	5,920	42,339	48,259
2021	4,625	419,975	424,600
2022	1,113	405,208	406,321
Thereafter	7,236	765,040	772,276
	\$ 30,504	\$ 1,670,146	\$ 1,700,650
Unamortized net debt premiums and issuance costs, net			(1,411)
Total			\$ 1,699,239

1 This presentation reflects the Company's exercise of its options to extend the maturity date by one year to July 28, 2021 for the Company's unsecured credit facility.

Other Debt Activity

For the year ended December 31, 2017, we had total new borrowings of \$97.7 million and total repayments of \$129.2 million. The components of this activity were as follows:

- We retired the \$6.7 million loan secured by our Pleasant Hill Commons operating property through a draw on our Credit Facility;
- We borrowed \$91 million on the Credit Facility to fund redevelopment activities, development activities, and tenant improvement costs;
- We used the \$76.1 million net proceeds from the sale of four operating properties to pay down the Credit Facility;
- We repaid \$48.2 million on the Credit Facility using cash flows generated from operations; and
- We made scheduled principal payments on indebtedness during the year totaling \$4.9 million.

The amount of interest capitalized in 2017, 2016, and 2015 was \$3.1 million, \$4.1 million, and \$4.6 million, respectively.

Fair Value of Fixed and Variable Rate Debt

As of December 31, 2017, the estimated fair value and book value of our fixed rate debt was \$1.1 billion. The fair value was estimated using Level 2 and 3 inputs with cash flows discounted at current borrowing rates for similar instruments, which ranged from 3.78% to 6.78%. As of December 31, 2017, the estimated fair value of variable rate debt was \$574.5 million compared to the book value of \$573.7 million. The fair value was estimated using Level 2 and 3 inputs with cash flows discounted at current borrowing rates for similar instruments, which ranged from 2.86% to 3.81%.

Note 10. Derivative Instruments, Hedging Activities and Other Comprehensive Income

In order to manage potential future variable interest rate risk, we enter into interest rate derivative agreements from time to time. We do not use such agreements for trading or speculative purposes nor do we have any that are not designated as cash flow hedges. The agreements with each of our derivative counterparties provide that, in the event of default on any of our indebtedness, we could also be declared in default on our derivative obligations.

As of December 31, 2017, we were party to various cash flow derivative agreements with notional amounts totaling \$435.5 million. These derivative agreements effectively fix the interest rate underlying certain variable rate debt instruments over expiration dates through 2021. Utilizing a weighted average interest rate spread over LIBOR on all variable rate debt resulted in fixing the weighted average interest rate at 3.15%.

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

We determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, although the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. As of December 31, 2017 and December 31, 2016, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined the credit valuation adjustments were not significant to the overall valuation of our derivatives. As a result, we determined our derivative valuations were classified within Level 2 of the fair value hierarchy.

As of December 31, 2017, the estimated fair value of our interest rate derivatives represented a net asset of \$2.4 million, including accrued interest of \$0.1 million. As of December 31, 2017, \$3.1 million is reflected in prepaid and other assets and \$0.7 million is reflected in accounts payable and accrued expenses on the accompanying consolidated balance sheet. At December 31, 2016 the estimated fair value of our interest rate derivatives was a net liability of \$2.2 million, including accrued interest of \$0.4 million. As of December 31, 2016, \$0.9 million is reflected in prepaid and other assets and \$3.1 million is reflected in accounts payable and accrued expenses on the accompanying consolidated balance sheet.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to earnings over time as the hedged items are recognized in earnings. Approximately \$2.5 million, \$4.8 million and \$5.6 million was reclassified as a reduction to earnings during the years ended December 31, 2017, 2016 and 2015, respectively. As the interest payments on our derivatives are made over the next 12 months, we estimate the increase to interest expense to be \$0.7 million, assuming the current LIBOR curve.

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

Note 11. Lease Information

Minimum Rentals from Tenant Leases

The Company receives rental income from the leasing of retail and office space under operating leases. The leases generally provide for certain increases in base rent, reimbursement for certain operating expenses and may require tenants to pay contingent rentals to the extent their sales exceed a defined threshold. The weighted average remaining term of the lease agreements is approximately 4.6 years. During the years ended December 31, 2017, 2016, and 2015, the Company earned average rent of \$1.1 million, \$1.5 million, and \$1.4 million, respectively.

As of December 31, 2017, future minimum rentals to be received under non-cancelable operating leases for each of the next five years and thereafter, excluding tenant reimbursements of operating expenses and percentage rent based on sales volume, are as follows:

(\$ in thousands)	
2018	\$ 259,365
2019	238,366
2020	215,584
2021	185,805
2022	151,127
Thereafter	635,979
Total	<u>\$ 1,686,226</u>

Commitments under Ground Leases

As of December 31, 2017, we are obligated under nine ground leases for approximately 47 acres of land. Most of these ground leases require fixed annual rent payments. The expiration dates of the remaining initial terms of these ground leases range from 2023 to 2092. These leases have five- to ten-year extension options ranging in total from 20 to 25 years. Ground lease expense incurred by the Company on these operating leases for the years ended December 31, 2017, 2016, and 2015 was \$1.7 million, \$1.8 million, and \$1.1 million, respectively.

Future minimum lease payments due under ground leases for the next five years ending December 31 and thereafter are as follows:

(\$ in thousands)	
2018	\$ 1,686
2019	1,694
2020	1,777
2021	1,789
2022	1,815
Thereafter	73,790
Total	<u>\$ 82,551</u>

Note 12. Shareholders' Equity

Common Equity

Our Board of Trustees declared a cash distribution of \$0.3175 per common share and Common Unit for the fourth quarter of 2017, which represents a 5.0% increase over our previous quarterly distribution. This distribution was paid on January 12, 2018 to common shareholders and Common Unit holders of record as of January 5, 2018.

For the years ended December 31, 2017, 2016 and 2015, we declared cash distributions of \$1.225, \$1.165, and \$1.090 respectively per common share and Common Units.

Accrued but unpaid distributions on common shares and units were \$27.2 million and \$25.9 million as of December 31, 2017 and 2016, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Preferred Equity

In 2015, we redeemed all 4,100,000 of our outstanding 8.25% Series A Cumulative Redeemable Perpetual Preferred Shares (the “Series A Preferred Shares”). The Series A Preferred Shares were redeemed at a total price of \$25.0287 per share, which includes accrued and unpaid dividends or a total of \$102.6 million. Prior to redemption the carrying value of these preferred shares, net of the original issuance costs, was reflected in Shareholders' Equity. In conjunction with the redemption, approximately \$3.8 million of initial issuance costs were written off as a non-cash charge against income attributable to common shareholders.

Dividend Reinvestment and Share Purchase Plan

We maintain a Dividend Reinvestment and Share Purchase Plan, which offers investors the option to invest all or a portion of their common share dividends in additional common shares. Participants in this plan are also able to make optional cash investments with certain restrictions.

At-the-Market Equity Program

During 2016, we issued 137,229 of our common shares at an average price per share of \$29.52 pursuant to our at-the-market equity program, generating gross proceeds of approximately \$4.1 million and, after deducting commissions and other costs, net proceeds of approximately \$3.8 million. The proceeds from these offerings were contributed to the Operating Partnership and used to pay down our unsecured revolving credit facility.

Note 13. Quarterly Financial Data (Unaudited)

Presented below is a summary of the consolidated quarterly financial data for the years ended December 31, 2017 and 2016.

(\$ in thousands, except per share data)	Quarter Ended March 31, 2017	Quarter Ended June 30, 2017	Quarter Ended September 30, 2017	Quarter Ended December 31, 2017
Total revenue	\$ 90,112	\$ 92,649	\$ 87,138	\$ 88,919
Operating income	8,118	21,084	16,229	19,312
(Loss) income before gains on sale of operating properties, net	(8,433)	4,568	(204)	2,795
Gain on sale of operating properties, net	8,870	6,290	—	—
Consolidated net income (loss)	437	10,858	(204)	2,795
Net income (loss) attributable to Kite Realty Group Trust common shareholders	5	10,180	(622)	2,309
Net income (loss) per common share – basic and diluted	—	0.12	(0.01)	0.03
Weighted average Common Shares outstanding - basic	83,565,325	83,585,736	83,594,163	83,595,677
Weighted average Common Shares outstanding - diluted	83,643,608	83,652,627	83,594,163	83,705,764

(\$ in thousands, except per share data)	Quarter Ended March 31, 2016	Quarter Ended June 30, 2016	Quarter Ended September 30, 2016	Quarter Ended December 31, 2016
Total revenue	\$ 88,550	\$ 87,575	\$ 89,122	\$ 88,874
Operating income	17,692	14,258	15,892	17,580
Income (loss) before gains on sale of operating properties, net	1,975	(1,690)	(1,262)	(159)
Gains on sale of operating properties, net	—	194	—	4,059
Consolidated net income (loss)	1,975	(1,496)	(1,262)	3,900
Net income (loss) attributable to Kite Realty Group Trust common shareholders	1,402	(1,895)	(1,682)	3,359
Net income (loss) per common share – basic and diluted	0.02	(0.02)	(0.02)	0.04
Weighted average Common Shares outstanding - basic	83,348,507	83,375,765	83,474,348	83,545,807
Weighted average Common Shares outstanding - diluted	83,490,979	83,375,765	83,474,348	83,571,663

Note 14. Commitments and Contingencies

Other Commitments and Contingencies

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

We are obligated under various completion guarantees with lenders and lease agreements with tenants to complete all or portions of the development and redevelopment projects. We believe we currently have sufficient financing in place to fund our investment in any existing or future projects through cash from operations, borrowings on our unsecured revolving credit facility and through borrowings on the construction loan for the Embassy Suites at University of Notre Dame.

In 2017, we provided a repayment guaranty on a \$33.8 million construction loan associated with the development of the Embassy Suites at the University of Notre Dame consistent with our 35% ownership interest. No amount has been drawn on the loan as of December 31, 2017.

As of December 31, 2017, we had outstanding letters of credit totaling \$6.3 million. At that date, there were no amounts advanced against these instruments.

Note 15. Supplemental Schedule of Non-Cash Financing Activities

The following schedule summarizes the non-cash financing activities of the Company for the years ended December 31, 2017, 2016 and 2015:

(\$ in thousands)	Year Ended December 31,		
	2017	2016	2015
Assumption of mortgages by buyer upon sale of operating properties	\$ —	\$ —	\$ 40,303
Assumption of debt in connection with acquisition of Chapel Hill Shopping Center including debt premium of \$212	—	—	18,462

Note 16. Related Parties and Related Party Transactions

Subsidiaries of the Company provide certain management, construction management and other services to certain entities owned by certain members of the Company's management. During the years ended December 31, 2017, 2016 and 2015, we earned less than \$0.1 million during each year presented, from entities owned by certain members of management.

We reimburse an entity owned by certain members of our management for travel and related services. During the years ended December 31, 2017, 2016 and 2015, we paid \$0.3 million, \$0.4 million and \$0.4 million, respectively, to this related entity.

Note 17. Subsequent Events

Dividend Declaration

On February 14, 2018, our Board of Trustees declared a cash distribution of \$0.3175 per common share and Common Unit for the first quarter of 2018. This distribution is expected to be paid on or about April 13, 2018 to common shareholders and Common Unit holders of record as of April 6, 2018.

Redemption of Redeemable Noncontrolling Interests

On February 7, 2018, members in one of our operating subsidiaries provided notice that they were exercising their right to redeem their Class B units in the subsidiary for the cash redemption price, which is equal to \$21.9 million. The amount that will be redeemed will be reclassified from temporary equity to accrued expenses in the consolidated balance sheets as of March 31, 2018 as the redemption is certain to occur as of that date. We expect to fund the redemption using cash on hand and borrowings on our unsecured revolving credit facility on or prior to August 7, 2018. For the redemption amount above \$10.0 million, we can defer the closing for an additional three months until November 7, 2018.

Kite Realty Group Trust and Kite Realty Group, L. P. and subsidiaries

Schedule III

Consolidated Real Estate and Accumulated Depreciation

(\$ in thousands)	Name	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition/Development		Gross Carrying Amount Close of Period		Total	Accumulated Depreciation	Year Built / Renovated	Year Acquired
			Land	Building & Improvements	Land	Building & Improvements	Land	Building & Improvements				
	<i>Operating Properties</i>											
	12th Street Plaza	\$ 5,000	\$ 2,624	\$ 13,237	\$ —	\$ 382	\$ 2,624	\$ 13,619	\$ 16,243	\$ 3,078	1978/2003	2012
	54th & College *	—	2,672	—	—	—	2,672	—	2,672	—	2008	NA
	Bayonne Crossing	44,505	47,809	44,062	—	1,368	47,809	45,430	93,239	6,715	2011	2014
	Bayport Commons	11,906	7,005	20,794	—	1,620	7,005	22,414	29,419	6,161	2008	NA
	Beacon Hill *	—	3,272	13,426	—	996	3,272	14,423	17,695	4,197	2006	NA
	Bell Oaks Centre	6,548	1,230	12,715	—	162	1,230	12,877	14,107	2,347	2008	2014
	Belle Isle Station *	—	9,130	41,449	—	376	9,130	41,826	50,956	5,689	2000	2015
	Bolton Plaza *	10,683	3,733	18,983	359	5,484	4,093	24,467	28,560	9,385	1986/2014	NA
	Boulevard Crossing	—	4,386	9,175	—	2,099	4,386	11,274	15,660	4,688	2004	NA
	Bridgewater Marketplace *	—	3,407	8,668	—	422	3,407	9,091	12,498	2,693	2008	NA
	Burlington *	—	29	2,773	—	—	29	2,773	2,802	1,183	1992/2000	2000
	Cannery Corner	—	6,267	10,516	—	415	6,267	10,932	17,199	1,862	2008	2014
	Casleton Crossing *	—	9,761	28,977	—	3,238	9,761	32,215	41,976	7,667	1975	2013
	Chapel Hill Shopping Center	18,250	—	35,074	—	409	—	35,483	35,483	4,026	2001	2015
	Centennial Center	70,455	58,960	72,756	—	3,345	58,960	76,101	135,061	19,174	2002	2014
	Centennial Gateway	44,385	5,305	48,712	—	1,803	5,305	50,515	55,820	9,116	2005	2014
	Centre Point Commons	14,410	2,918	22,647	—	257	2,918	22,903	25,821	3,603	2007	2014
	Cobblestone Plaza *	—	11,221	45,551	—	490	11,221	46,041	57,262	9,585	2011	NA
	Colonial Square *	—	11,743	31,299	—	898	11,743	32,197	43,940	4,220	2010	2014
	Colleyville Downs *	—	5,446	38,574	—	830	5,446	39,404	44,850	6,053	2014	2015
	Cool Creek Commons *	—	6,062	13,430	—	1,807	6,062	15,236	21,298	5,405	2005	NA
	Cool Springs Market *	—	12,684	21,454	—	8,262	12,684	29,716	42,400	6,726	1995	2013
	Crossing at Killingly Commons	33,000	21,999	35,218	—	132	21,999	35,350	57,349	5,827	2010	2014
	Delray Marketplace	56,850	18,750	88,877	1,284	4,818	20,034	93,695	113,729	14,919	2013	NA
	DePauw University Bookstore and Café	—	64	663	—	45	64	708	772	274	2012	NA
	Draper Crossing *	—	9,054	28,485	—	183	9,054	28,668	37,722	5,801	2012	2014
	Draper Peaks *	—	11,498	46,876	522	2,340	12,020	49,216	61,236	5,912	2012	2014
	Eastern Beltway Center	34,100	23,221	45,633	—	801	23,221	46,434	69,655	6,075	1998/2006	2014
	Eastgate Plaza	—	4,073	20,207	—	164	4,073	20,372	24,445	3,193	2002	2014
	Eastgate Pavilion *	—	8,026	18,899	—	1,715	8,026	20,614	28,640	8,147	1995	2004
	Eddy Street Commons	23,131	1,900	37,739	—	1,249	1,900	38,988	40,888	10,508	2009	NA
	Estero Town Commons *	—	8,973	9,960	—	979	8,973	10,939	19,912	3,033	2006	NA
	Fox Lake Crossing *	—	5,685	9,274	—	347	5,685	9,621	15,306	3,775	2002	2005
	Gainesville Plaza *	—	5,437	18,237	—	1,515	5,437	19,751	25,188	5,911	2015	2004
	Geist Pavilion *	—	1,368	8,449	—	1,820	1,368	10,269	11,637	3,752	2006	NA
	Glendale Town Center *	—	1,494	43,838	—	2,247	1,494	46,084	47,578	28,514	1958/2008	1999
	Greyhound Commons *	—	2,629	794	—	887	2,629	1,681	4,310	696	2005	NA

Name	Initial Cost		Cost Capitalized Subsequent to Acquisition/Development		Gross Carrying Amount Close of Period		Total	Accumulated Depreciation	Year Built / Renovated	Year Acquired	
	Encumbrances	Building & Improvements		Land	Building & Improvements						Land
		Land	Improvements		Land	Improvements					
<i>Operating Properties (continued)</i>											
Hamilton Crossing - Phase II & III *	\$ —	2,859	\$ 23,190	\$ —	451	\$ 2,859	\$ 23,641	\$ 3,427	2008	2014	
Hitchcock Plaza *	—	4,260	21,960	—	2,488	4,260	24,447	2,893	2006	2014	
Holly Springs Towne Center - Phase I *	—	12,319	46,689	—	1,458	12,319	48,147	7,474	2013	NA	
Holly Springs Towne Center - Phase II *	—	11,910	49,212	—	—	11,910	49,212	2,162	2016	NA	
Hunters Creek Promenade *	—	8,335	12,706	—	917	8,335	13,623	2,241	1994	2013	
Indian River Square *	—	5,100	6,354	—	584	5,100	6,938	2,568	1997/2004	2005	
International Speedway Square *	19,017	7,769	18,045	—	9,352	7,769	27,397	15,540	1999	NA	
Kings Lake Square *	—	4,519	15,630	—	492	4,519	16,122	7,063	1986/2014	2003	
Kingwood Commons *	—	5,715	30,891	—	143	5,715	31,034	6,916	1999	2013	
Lake City Commons	5,200	3,415	10,242	—	349	3,415	10,591	1,853	2008	2014	
Lake City Commons - Phase II *	—	1,277	2,225	—	16	1,277	2,241	361	2011	2014	
Lake Mary Plaza	5,080	1,413	8,719	—	89	1,413	8,807	1,185	2009	2014	
Lakewood Promenade *	—	1,783	25,471	—	1,256	1,783	26,728	6,706	1948/1998	2013	
Landstown Commons *	—	18,672	92,045	—	2,626	18,672	94,671	16,404	2007	2014	
Lima Marketplace	8,383	4,703	15,706	—	543	4,703	16,249	2,815	2008	2014	
Lithia Crossing *	—	3,065	9,962	—	5,605	3,065	15,567	4,317	1993/2003	2011	
Livingston Shopping Center *	—	10,372	35,537	—	—	10,372	35,537	3,181	1997	2015	
Lowe's Plaza	—	2,125	5,976	—	53	2,125	6,029	997	2007	2014	
Market Street Village *	—	9,764	16,360	—	2,920	9,764	19,280	6,533	1970/2004	2005	
Memorial Commons *	—	1,568	14,628	—	341	1,568	14,969	2,022	2008	2014	
Merrimack Village Center	5,445	1,921	12,777	—	149	1,921	12,927	2,277	2007	2014	
Miramar Square	31,625	26,392	30,889	489	607	26,880	31,496	5,188	2008	2014	
Mullins Crossing *	—	10,582	42,031	—	398	10,582	42,429	8,683	2005	2014	
Naperville Marketplace	7,513	5,364	11,475	—	106	5,364	11,580	3,336	2008	NA	
Northerst Shopping Center	15,780	4,044	33,857	—	980	4,044	34,837	4,509	2008	2014	
Northdale Promenade *	—	1,718	27,481	—	—	1,718	27,481	7,732	2017	NA	
Oleander Place *	—	863	5,935	—	30	863	5,965	1,727	2012	2011	
Palm Coast Landing	22,274	4,962	37,995	—	769	4,962	38,764	5,848	2010	2014	
Parkside Town Commons - Phase I *	—	3,108	43,313	—	—	3,108	43,313	5,848	2015	N/A	
Parkside Town Commons - Phase II *	—	20,722	66,766	—	—	20,722	66,766	6,012	2017	N/A	
Perimeter Woods	33,330	35,793	27,257	—	706	35,793	27,964	3,923	2008	2014	
Pine Ridge Crossing *	—	5,640	17,084	—	3,480	5,640	20,564	6,122	1993	2006	
Plaza at Cedar Hill *	—	5,782	36,781	—	9,462	5,782	46,243	18,486	2000	2004	
Plaza Volente *	—	4,600	29,074	—	1,042	4,600	30,117	11,625	2004	2005	
Pleasant Hill Commons *	—	3,350	10,103	—	323	3,350	10,427	1,856	2008	2014	
Portofino Shopping Center *	—	4,754	75,117	—	14,747	4,754	89,864	17,573	1999	2013	
Publix at Acworth	5,557	1,357	7,938	39	1,115	1,395	9,053	3,490	1996	2004	
Publix at Woodruff *	—	1,783	6,342	—	303	1,783	6,645	2,245	1997	2012	

Name	Initial Cost		Cost Capitalized Subsequent to Acquisition/Development				Gross Carrying Amount Close of Period				Year Built / Renovated		Year Acquired
	Encumbrances	Land	Building & Improvements		Land	Improvements	Land	Improvements	Total	Accumulated Depreciation	Year Built / Renovated	Year Acquired	
			Land	Improvements									
<i>Operating Properties (continued)</i>													
Rangeline Crossing *	\$ —	2,043	\$ 18,414	\$ —	564	2,043	\$ 18,979	\$ —	21,022	\$ 5,782	1986/2013	NA	
Riverchase Plaza *	—	3,889	11,404	—	1,348	3,889	12,752	16,641	4,369	1991/2001	2006		
Rivers Edge *	—	5,647	31,358	—	1,354	5,647	32,712	38,359	7,695	2011	2008		
Saxon Crossing	11,400	3,764	16,791	—	25	3,764	16,815	20,579	2,773	2009	2014		
Shoppes at Plaza Green *	—	3,749	23,853	—	1,269	3,749	25,122	28,871	6,329	2000	2012		
Shoppes of Eastwood *	—	1,688	8,926	—	563	1,688	9,489	11,177	2,361	1997	2013		
Shops at Eagle Creek *	—	4,550	8,844	—	5,000	4,550	13,844	18,394	4,569	1998	2003		
Shops at Jullington Creek	4,785	2,372	7,976	—	103	2,372	8,079	10,451	1,351	2011	2014		
Shops at Moore	21,300	8,030	33,380	—	1,677	8,030	35,057	43,087	7,333	2010	2014		
Silver Springs Pointe	8,800	9,685	7,676	—	276	9,685	7,952	17,637	2,388	2001	2014		
South Elgin Commons *	—	3,916	22,140	—	49	3,916	22,188	26,104	3,629	2011	2014		
Stoney Creek Commons *	—	628	3,700	—	5,837	628	9,538	10,166	2,645	2000	NA		
Sunland Towne Centre *	—	14,774	22,542	—	5,099	14,774	27,641	42,415	10,823	1996	2004		
Tamiami Crossing *	—	19,810	29,227	—	—	19,810	29,227	49,037	1,567	2016	NA		
Tarpon Bay Plaza *	—	4,273	23,856	—	2,735	4,273	26,592	30,865	7,439	2007	NA		
Temple Terrace *	—	2,245	9,229	—	108	2,245	9,336	11,581	1,212	2012	2014		
The Centre at Panola *	1,667	1,986	8,191	—	372	1,986	8,563	10,549	3,727	2001	2004		
The Corner	14,750	3,772	24,605	—	80	3,772	24,686	28,458	3,344	2008	2014		
The Landing at Tradition *	—	18,505	45,821	—	2,109	18,505	47,929	66,434	8,992	2007	2014		
Toringdon Market *	—	5,448	9,411	—	291	5,448	9,703	15,151	2,084	2004	2013		
Traders Point *	—	9,443	36,433	—	2,428	9,443	38,861	48,304	14,382	2005	NA		
Traders Point II *	—	2,376	6,441	—	1,138	2,376	7,578	9,954	2,752	2005	NA		
Tradition Village Center *	—	3,140	14,809	—	1,149	3,140	15,958	19,098	2,714	2006	2014		
Trussville Promenade *	—	9,123	45,359	—	5,234	9,123	50,593	59,716	11,319	1999	2013		
University Town Center	18,690	4,125	31,565	—	735	4,125	32,300	36,425	5,024	2009	2014		
University Town Center - Phase II	10,500	7,902	24,164	—	765	7,902	24,929	32,831	4,588	2012	2014		
Village at Bay Park	9,183	8,248	9,942	—	584	8,248	10,526	18,774	1,452	2005	2014		
Waterford Lakes Village *	—	2,317	6,382	—	277	2,317	6,659	8,976	2,553	1997	2004		
Waxahachie Crossing	7,750	1,411	15,698	—	105	1,411	15,803	17,214	2,010	2010	2014		
Westside Market *	—	4,194	17,698	—	335	4,194	18,033	22,227	2,000	2013	2014		
Whitehall Pike	4,569	3,689	6,109	—	233	3,689	6,341	10,030	4,397	1999	NA		
Total Operating Properties	645,822	780,260	2,533,127	2,692	159,648	782,952	2,692,774	3,475,726	586,651				

Name	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition/Development		Gross Carrying Amount Close of Period		Accumulated Depreciation	Year Built / Renovated	Year Acquired	
		Land	Improvements	Land	Improvements	Land	Building & Improvements				Total
<i>Office Properties</i>											
Thirty South	\$ 17,218	\$ 1,643	\$ 9,669	\$ —	\$ 18,973	\$ 1,643	\$ 28,642	\$ 14,500	1905/2002	2001	
Union Station Parking Garage *	—	904	2,650	—	1,268	904	3,918	1,642	1986	2001	
Total Office Properties	17,218	2,547	12,319	—	20,241	2,547	32,560	16,142			
<i>Development and Redevelopment Properties</i>											
Beechwood Promenade *	—	2,734	47,978	—	—	2,734	47,978	9,494	NA	NA	
Burnt Store Promenade *	—	5,112	14,910	—	—	5,112	14,910	4,164	NA	NA	
City Center *	—	20,565	177,389	—	—	20,565	177,389	23,611	NA	NA	
Courthouse Shadows *	—	4,999	17,213	—	—	4,999	17,213	4,979	NA	NA	
Eddy Street Commons - Phase II *	—	1,379	—	—	—	1,379	—	—	NA	NA	
Fishers Station	6,555	3,736	16,297	—	—	3,736	16,297	4,391	NA	NA	
Hamilton Crossing Centre	10,214	5,549	10,289	—	—	5,549	10,289	3,641	NA	NA	
Rampart Commons	10,742	1,136	36,514	—	—	1,136	36,514	4,963	NA	NA	
The Corner *	—	304	3,724	—	—	304	3,724	2,100	NA	NA	
Total Development and Redevelopment Properties	27,511	45,514	324,314	—	—	45,514	324,314	57,342			
<i>Other **</i>											
Bridgewater Marketplace *	—	2,110	—	—	—	2,110	—	—	NA	NA	
Deerwood Lake *	—	1,421	25,272	—	—	1,421	25,272	141	NA	NA	
Eddy Street Commons *	—	277	—	—	—	277	—	—	NA	NA	
Fox Lake Crossing II	—	3,458	—	—	—	3,458	—	—	NA	NA	
KRG Development	—	—	655	—	—	—	656	—	NA	NA	
KRG New Hill *	—	5,791	—	—	—	5,791	—	—	NA	NA	
KRG Peakway	—	20,944	—	—	—	20,944	—	—	NA	NA	
Pan Am Plaza	—	8,840	—	—	—	8,840	—	—	NA	NA	
Total Other	—	42,841	25,928	—	—	42,841	25,929	141			
Line of credit/Term Loan/Unsecured notes	1,010,100	—	—	—	—	—	—	—	NA	NA	
Grand Total	\$ 1,700,650	\$ 871,161	\$ 2,895,688	\$ 2,692	\$ 179,889	\$ 873,854	\$ 3,075,577	\$ 660,276			

* This property or a portion of the property is included as an unencumbered asset used in calculating our line of credit borrowing base.

** This category generally includes land held for development. We also have certain additional land parcels at our development and operating properties, which amounts are included elsewhere in this table.

Kite Realty Group Trust and Kite Realty Group, L.P. and subsidiaries
Notes to Schedule III
Consolidated Real Estate and Accumulated Depreciation
(\$ in thousands)

Note 1. Reconciliation of Investment Properties

The changes in investment properties of the Company for the years ended December 31, 2017, 2016, and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 3,988,819	\$ 3,926,180	\$ 3,897,131
Acquisitions	—	—	176,068
Improvements	78,947	97,161	92,717
Impairment	(10,897)	—	(2,293)
Disposals	(107,438)	(34,522)	(237,443)
Balance, end of year	<u>\$ 3,949,431</u>	<u>\$ 3,988,819</u>	<u>\$ 3,926,180</u>

The unaudited aggregate cost of investment properties for federal tax purposes as of December 31, 2017 was \$3.0 billion.

Note 2. Reconciliation of Accumulated Depreciation

The changes in accumulated depreciation of the Company for the years ended December 31, 2017, 2016, and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 556,851	\$ 428,930	\$ 313,524
Depreciation expense	148,346	148,947	141,516
Impairment	(3,494)	—	(833)
Disposals	(41,427)	(21,026)	(25,277)
Balance, end of year	<u>\$ 660,276</u>	<u>\$ 556,851</u>	<u>\$ 428,930</u>

Depreciation of investment properties reflected in the statements of operations is calculated over the estimated original lives of the assets as follows:

Buildings	20-35 years
Building improvements	10-35 years
Tenant improvements	Term of related lease
Furniture and Fixtures	5-10 years

All other schedules have been omitted because they are inapplicable, not required or the information is included elsewhere in the consolidated financial statements or notes thereto.

Kite Realty Group Trust
Schedule of Non-Employee Trustee Fees and Other Compensation

Annual Cash Retainer	\$60,000
Additional Chairperson Annual Retainers	Audit Committee Chairperson: \$25,000 Compensation Committee Chairperson: \$20,000 Corporate Governance and Nominating Committee Chairperson: \$15,000
Additional Committee Member Annual Retainers	Audit Committee: \$12,500 Compensation Committee: \$10,000 Corporate Governance and Nominating Committee: \$7,500
Lead Independent Trustee Annual Retainer	\$25,000
Annual Restricted Share Awards	Each trustee will receive restricted common shares with a value of \$100,000 on an annual basis, which shares will vest on the one-year anniversary of the grant date. In addition, upon initial election, each trustee will receive a one-time grant of 750 restricted common shares, which shares will vest on the one-year anniversary of the grant date.
Share Ownership Guidelines	Each non-employee trustee is expected to hold shares of the Company equal to at least five times the annual cash retainer, to be achieved within five years of becoming subject to such policy.

Effective April 1, 2017.

Kite Realty Group Trust

Calculation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends

(\$ in thousands, except ratios)	Years ended December 31				
	2017	2016	2015	2014	2013
Earnings:					
Net (loss) income from continuing operations	\$ (1,272)	\$ (1,137)	\$ 25,249	\$ (16,452)	\$ (726)
Add:					
Income tax (benefit) expense	(100)	814	186	24	262
Fixed charges, net of capitalized interest	65,788	65,669	56,488	45,549	28,026
Earnings before fixed charges and preferred dividends	\$ 64,416	\$ 65,346	\$ 81,923	\$ 29,121	\$ 27,562
Fixed charges:					
Interest expense	\$ 65,702	\$ 65,577	\$ 56,432	\$ 45,513	\$ 27,994
Capitalized interest	3,081	4,061	4,633	4,789	5,081
Interest within rental expense	86	92	56	36	33
Total fixed charges	68,869	69,730	61,121	50,338	33,108
Preferred dividends	—	—	7,877	8,456	8,456
Total fixed charges and preferred dividends	\$ 68,869	\$ 69,730	\$ 68,998	\$ 58,794	\$ 41,564
Ratio of earnings to fixed charges and preferred dividends	(1)	(2)	1.19	(3)	(4)

- 1 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2017 was \$4.5 million. The calculation of earnings includes \$172.1 million of non-cash depreciation expense.
- 2 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2016 was \$4.4 million. The calculation of earnings includes \$174.6 million of non-cash depreciation expense.
- 3 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2014 was \$29.7 million. The calculation of earnings includes \$121.0 million of non-cash depreciation expense.
- 4 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2013 was \$14.0 million. The calculation of earnings includes \$54.5 million of non-cash depreciation expense.

Kite Realty Group, L.P. and subsidiaries

Calculation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends

(\$ in thousands, except ratios)	Years ended December 31				
	2017	2016	2015	2014	2013
Earnings:					
Net (loss) income from continuing operations	\$ (1,272)	\$ (1,137)	\$ 25,249	\$ (16,452)	\$ (726)
Add:					
Income tax (benefit) expense	(100)	814	186	24	262
Fixed charges, net of capitalized interest	65,788	65,669	56,488	45,549	28,026
Earnings before fixed charges and preferred dividends	\$ 64,416	\$ 65,346	\$ 81,923	\$ 29,121	\$ 27,562
Fixed charges:					
Interest expense	\$ 65,702	\$ 65,577	\$ 56,432	\$ 45,513	\$ 27,994
Capitalized interest	3,081	4,061	4,633	4,789	5,081
Interest within rental expense	86	92	56	36	33
Total fixed charges	68,869	69,730	61,121	50,338	33,108
Preferred dividends	—	—	7,877	8,456	8,456
Total fixed charges and preferred dividends	\$ 68,869	\$ 69,730	\$ 68,998	\$ 58,794	\$ 41,564
Ratio of earnings to fixed charges and preferred dividends	(1)	(2)	1.19	(3)	(4)

- 1 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2017 was \$4.5 million. The calculation of earnings includes \$172.1 million of non-cash depreciation expense.
- 2 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2016 was \$4.4 million. The calculation of earnings includes \$174.6 million of non-cash depreciation expense.
- 3 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2014 was \$29.7 million. The calculation of earnings includes \$121.0 million of non-cash depreciation expense.
- 4 The ratio is less than 1.0; the amount of coverage deficiency for the year ended December 31, 2013 was \$14.0 million. The calculation of earnings includes \$54.5 million of non-cash depreciation expense.

Kite Realty Group List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation or Formation
116 & Olio, LLC	Indiana
Brentwood Land Partners, LLC	Delaware
Bulwark, LLC	Delaware
Corner Associates, LP	Indiana
Dayville Property Development, LLC	Connecticut
Fishers Station Development Company	Indiana
Glendale Centre, L.L.C.	Indiana
International Speedway Square, Ltd.	Florida
Kite Acworth Management, LLC	Delaware
Kite Acworth, LLC	Indiana
Kite Eagle Creek, LLC	Indiana
Kite Greyhound III, LLC	Indiana
Kite Greyhound, LLC	Indiana
Kite King's Lake, LLC	Indiana
Kite Kokomo Management, LLC	Delaware
Kite Kokomo, LLC	Indiana
Kite Realty Advisors, LLC d/b/a KMI Realty Advisors	Indiana
Kite Realty Construction, LLC	Indiana
Kite Realty Development, LLC	Indiana
Kite Realty Eddy Street Garage, LLC	Indiana
Kite Realty Eddy Street Land, LLC	Indiana
Kite Realty FS Hotel Operators, LLC	Indiana
Kite Realty Group Trust	Maryland
Kite Realty Group, L.P.	Delaware
Kite Realty Holding, LLC	Indiana
Kite Realty New Hill Place, LLC	Indiana
Kite Realty Peakway at 55, LLC	Indiana
Kite Realty Washington Parking, LLC	Indiana
Kite Realty/White LS Hotel Operators, LLC	Indiana
Kite San Antonio, LLC	Indiana
Kite Washington Parking, LLC	Indiana
Kite Washington, LLC	Indiana
Kite West 86th Street II, LLC	Indiana
Kite West 86th Street, LLC	Indiana
KRG 951 & 41, LLC	Indiana
KRG Aiken Hitchcock, LLC	Delaware
KRG Alcoa TN, LLC	Delaware
KRG Alcoa Hamilton, LLC	Delaware
KRG Ashwaubenon Bay Park, LLC	Delaware
KRG Bayonne Urban Renewal, LLC	Delaware

KRG Beacon Hill, LLC	Indiana
KRG Beechwood, LLC	Indiana
KRG Belle Isle, LLC	Indiana
KRG Bolton Plaza, LLC	Indiana
KRG Bradenton Centre Point, LLC	Delaware
KRG Bridgewater, LLC	Indiana
KRG Burnt Store, LLC	Indiana
KRG Capital, LLC	Indiana
KRG Castleton Crossing, LLC	Indiana
KRG Cedar Hill Plaza, LP	Delaware
KRG Centre, LLC	Indiana
KRG Chapel Hill Shopping Center, LLC	Delaware
KRG Charlotte Northcrest, LLC	Delaware
KRG Charlotte Perimeter Woods, LLC	Delaware
KRG CHP Management, LLC	Delaware
KRG Clay, LLC	Indiana
KRG College I, LLC	Indiana
KRG College, LLC	Indiana
KRG Colleyville Downs, LLC	Indiana
KRG Construction, LLC	Indiana
KRG Cool Creek Management, LLC	Indiana
KRG Cool Creek Outlots, LLC	Indiana
KRG Cool Springs, LLC	Indiana
KRG Corner Associates, LLC	Indiana
KRG Courthouse Shadows I, LLC	Delaware
KRG Courthouse Shadows, LLC	Delaware
KRG Courthouse Shadows II, LLC	Delaware
KRG Cove Center, LLC	Indiana
KRG Dallas Wheatland, LLC	Delaware
KRG Daytona Management II, LLC	Delaware
KRG Daytona Outlot Management, LLC	Delaware
KRG Dayville Killingly Member II, LLC	Delaware
KRG Dayville Killingly Member, LLC	Delaware
KRG Delray Beach, LLC	Indiana
KRG Development, LLC d/b/a Kite Development	Indiana
KRG Draper Crossing, LLC	Delaware
KRG Draper Peaks, LLC	Delaware
KRG Draper Peaks Outlot, LLC	Indiana
KRG Eagle Creek III, LLC	Indiana
KRG Eagle Creek IV, LLC	Indiana
KRG Eastgate Pavilion, LLC	Indiana
KRG Eastwood, LLC	Indiana
KRG Eddy Street Apartments, LLC	Indiana
KRG Eddy Street Commons at Notre Dame Declarant, LLC	Indiana
KRG Eddy Street Commons, LLC	Indiana
KRG Eddy Street FS Hotel, LLC	Indiana

KRG Eddy Street Land Management, LLC	Delaware
KRG Eddy Street Land, LLC	Indiana
KRG Eddy Street Land II, LLC	Indiana
KRG Eddy Street Office, LLC	Indiana
KRG Estero, LLC	Indiana
KRG Evans Mullins, LLC	Delaware
KRG Evans Mullins Outlots, LLC	Delaware
KRG Fishers Station II, LLC	Indiana
KRG Fishers Station III, LLC	Indiana
KRG Fishers Station, LLC	Indiana
KRG Fort Myers Colonial Square, LLC	Delaware
KRG Fort Myers Village Walk, LLC	Delaware
KRG Fort Wayne Lima, LLC	Delaware
KRG Fort Wayne Lima Outlot, LLC	Delaware
KRG Fox Lake Crossing II, LLC	Indiana
KRG Fox Lake Crossing, LLC	Delaware
KRG Frisco Westside, LLC	Delaware
KRG Gainesville, LLC	Indiana
KRG Geist Management, LLC	Indiana
KRG Goldsboro Memorial, LLC	Delaware
KRG Greencastle, LLC	Indiana
KRG Hamilton Crossing Management, LLC	Delaware
KRG Hamilton Crossing, LLC	Indiana
KRG Henderson Eastgate, LLC	Delaware
KRG Hunter's Creek, LLC	Indiana
KRG Jacksonville Deerwood Lake, LLC	Delaware
KRG Jacksonville Julington Creek, LLC	Delaware
KRG Jacksonville Julington Creek II, LLC	Delaware
KRG Indian River, LLC	Delaware
KRG Indian River Outlot, LLC	Delaware
KRG ISS LH OUTLOT, LLC	Indiana
KRG ISS, LLC	Indiana
KRG Kingwood Commons, LLC	Indiana
KRG Kissimmee Pleasant Hill, LLC	Delaware
KRG Kokomo Project Company, LLC	Indiana
KRG Lake City Commons, LLC	Delaware
KRG Lake City Commons II, LLC	Delaware
KRG Lake Mary, LLC	Delaware
KRG Lakewood, LLC	Indiana
KRG Las Vegas Centennial Center, LLC	Delaware
KRG Las Vegas Centennial Gateway, LLC	Delaware
KRG Las Vegas Craig, LLC	Delaware
KRG Las Vegas Eastern Beltway, LLC	Delaware
KRG Lithia, LLC	Indiana
KRG Livingston Center, LLC	Indiana
KRG Management, LLC	Indiana
KRG Market Street Village I, LLC	Indiana

KRG Market Street Village II, LLC	Indiana
KRG Market Street Village, LP	Indiana
KRG Merrimack Village, LLC	Delaware
KRG Miramar Square, LLC	Delaware
KRG Naperville Management, LLC	Delaware
KRG Naperville, LLC	Indiana
KRG New Hill Place, LLC	Indiana
KRG Newburgh Bell Oaks, LLC	Delaware
KRG Norman University, LLC	Delaware
KRG Norman University II, LLC	Delaware
KRG Norman University III, LLC	Delaware
KRG Northdale, LLC	Indiana
KRG North Las Vegas Losee, LLC	Delaware
KRG Oklahoma City Silver Springs, LLC	Delaware
KRG Oldsmar Management, LLC	Delaware
KRG Oldsmar Project Company, LLC	Delaware
KRG Oldsmar, LLC	Indiana
KRG Oleander, LLC	Indiana
KRG Orange City Saxon, LLC	Delaware
KRG Palm Coast Landing, LLC	Delaware
KRG Pan Am Plaza, LLC	Indiana
KRG Panola I, LLC	Delaware
KRG Panola II, LLC	Indiana
KRG Parkside I, LLC	Indiana
KRG Parkside II, LLC	Indiana
KRG Peakway at 55, LLC	Indiana
KRG Pembroke Pines, LLC	Indiana
KRG Pine Ridge, LLC	Delaware
KRG Pipeline Pointe, LP	Indiana
KRG Plaza Green, LLC	Indiana
KRG Plaza Volente Management, LLC	Delaware
KRG Plaza Volente, LP	Indiana
KRG Port St. Lucie Landing, LLC	Delaware
KRG Port St. Lucie Square, LLC	Delaware
KRG Portofino, LLC	Indiana
KRG Rampart, LLC	Delaware
KRG Riverchase, LLC	Delaware
KRG Rivers Edge II, LLC	Indiana
KRG Rivers Edge, LLC	Indiana
KRG San Antonio, LP	Indiana
KRG Shops at Moore II, LLC	Delaware
KRG Shops at Moore Member, LLC	Delaware
KRG Shops at Moore, LLC	Delaware
KRG South Elgin Commons, LLC	Delaware
KRG St. Cloud 13th, LLC	Delaware
KRG Sunland II, LP	Indiana
KRG Sunland Management, LLC	Delaware

KRG Sunland, LP	Indiana
KRG Temple Terrace, LLC	Delaware
KRG Temple Terrace Member, LLC	Delaware
KRG Territory Member, LLC	Delaware
KRG Territory, LLC	Delaware
KRG Texas, LLC	Indiana
KRG Toringdon Market, LLC	Indiana
KRG Traders Management, LLC	Delaware
KRG Trussville I, LLC	Indiana
KRG Trussville II, LLC	Indiana
KRG Tucson Corner, LLC	Delaware
KRG Vero, LLC	Delaware
KRG Virginia Beach Landstown, LLC	Delaware
KRG Washington Management, LLC	Delaware
KRG Waterford Lakes, LLC	Indiana
KRG Waxahachie Crossing GP, LLC	Delaware
KRG Waxahachie Crossing LP, LLC	Delaware
KRG Waxahachie Crossing Limited Partnership	Illinois
KRG Whitehall Pike Management, LLC	Indiana
KRG White Plains City Center Member II, LLC	Delaware
KRG White Plains City Center Member, LLC	Delaware
KRG White Plains City Center, LLC	Delaware
KRG White Plains Garage, LLC	Delaware
KRG Woodruff Greenville, LLC	Indiana
KRG/Atlantic Delray Beach, LLC	Florida
KRG/CP Pan Am Plaza, LLC	Indiana
KRG/I-65 Partners Beacon Hill, LLC	Indiana
KRG/KP Northwest 20, LLC	Indiana
KRG/PRISA II Parkside, LLC	Delaware
KRG/PRP Oldsmar, LLC	Florida
LC White Plains, LLC	New York
Meridian South Insurance, LLC	TN
MS Insurance Protected Cell Series 2014-15	TN
Noblesville Partners, LLC	Indiana
Property Tax Advantage Advisors, LLC	Indiana
SB Hotel, LLC	Indiana
SB Hotel 2, LLC	Indiana
Splendido Real Estate, LLC	Delaware
Westfield One, LLC	Indiana
Whitehall Pike, LLC	Indiana

Property Owner's Association

Brentwood Property Owners' Association, Inc.	Florida
Delray Marketplace Master Association, Inc.	Florida
Eddy Street Commons at Notre Dame Master Association, Inc.	Indiana
Estero Town Commons Property Owners Association, Inc.	Florida
Pleasant Hill Commons Property Owners' Association, Inc.	Florida

Riverchase Owners' Association, Inc.
White Plains City Center Condo Association, Inc.

Florida
New York

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-188436, 333-159219, 333-152943, and 333-120142) and the Registration Statements on Form S-3 (File Nos. 333-202666, 333-195857, and 333-127585) of Kite Realty Group Trust and in the related Prospectuses of our reports dated February 20, 2018, with respect to the consolidated financial statements and schedule of Kite Realty Group Trust and the effectiveness of internal control over financial reporting of Kite Realty Group Trust, included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Indianapolis, Indiana

February 20, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-3 (File No. 333-202666) of Kite Realty Group, L.P. and subsidiaries and in the related Prospectus of our reports dated February 20, 2018, with respect to the consolidated financial statements and schedule of Kite Realty Group, L.P. and subsidiaries and the effectiveness of internal control over financial reporting of Kite Realty Group, L.P. and subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Indianapolis, Indiana
February 20, 2018

KITE REALTY GROUP TRUST

CERTIFICATION

I, John A. Kite, certify that:

1. I have reviewed this annual report on Form 10-K of Kite Realty Group Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2018

By: /s/ John A. Kite

John A. Kite
Chairman and Chief Executive Officer

KITE REALTY GROUP TRUST

CERTIFICATION

I, Daniel R. Sink, certify that:

1. I have reviewed this annual report on Form 10-K of Kite Realty Group Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2018

By: /s/ Daniel R. Sink

Daniel R. Sink
Chief Financial Officer

KITE REALTY GROUP, L.P.

CERTIFICATION

I, John A. Kite, certify that:

1. I have reviewed this annual report on Form 10-K of Kite Realty Group, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2018

By: /s/ John A. Kite

John A. Kite
Chief Executive Officer

KITE REALTY GROUP, L.P.

CERTIFICATION

I, Daniel R. Sink, certify that:

1. I have reviewed this annual report on Form 10-K of Kite Realty Group, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2018

By: /s/ Daniel R. Sink

Daniel R. Sink
Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, John A. Kite, Chairman and Chief Executive Officer of Kite Realty Group Trust (the “Parent Company”), and Daniel R. Sink, Chief Financial Officer of the Parent Company, each hereby certifies based on his knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Parent Company for the year ended December 31, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Parent Company.

Date: February 20, 2018

By: /s/ John A. Kite

John A. Kite
Chairman and Chief Executive Officer

Date: February 20, 2018

By: /s/ Daniel R. Sink

Daniel R. Sink
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Parent Company and will be retained by the Parent Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350,**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, John A. Kite, Chief Executive Officer of Kite Realty Group, L.P. (the "Operating Partnership"), and Daniel R. Sink, Chief Financial Officer of the Operating Partnership, each hereby certifies based on his knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Operating Partnership for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

Date: February 20, 2018

By: /s/ John A. Kite

John A. Kite
Chief Executive Officer

Date: February 20, 2018

By: /s/ Daniel R. Sink

Daniel R. Sink
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Operating Partnership and will be retained by the Operating Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

Material U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations relating to our qualification and taxation as a real estate investment trust, a “REIT,” and the acquisition, holding, and disposition of (i) our common shares, preferred shares and depositary shares (together with common shares and preferred shares, the “shares”) as well as our warrants and rights, and (ii) debt securities issued by Kite Realty Group, L.P. (our “operating partnership”) (together with the shares, the “securities”). For purposes of this discussion, references to “our Company,” “we” and “us” mean only Kite Realty Group Trust and not its subsidiaries or affiliates. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury Regulations, rulings and other administrative interpretations and practices of the Internal Revenue Service (the “IRS”) (including administrative interpretations and practices expressed in private letter rulings which are binding on the IRS only with respect to the particular taxpayers who requested and received those rulings), and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. We have not sought and will not seek an advance ruling from the IRS regarding any matter discussed in this section. The summary is also based upon the assumption that we will operate our Company and its subsidiaries and affiliated entities in accordance with their applicable organizational documents. This summary is for general information only, and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of its investment or tax circumstances, or to investors subject to special tax rules, including:

- tax-exempt organizations, except to the extent discussed below in “-Taxation of U.S. Shareholders-Taxation of Tax-Exempt Shareholders,”
- broker-dealers,
- non-U.S. corporations, non-U.S. partnerships, non-U.S. trusts, non-U.S. estates, or individuals who are not taxed as citizens or residents of the United States, all of which may be referred to collectively as “non-U.S. persons,” except to the extent discussed below in “-Taxation of Non-U.S. Shareholders” and “-Taxation of Holders of Debt Securities Issued by our Operating Partnership-Non-U.S. Holders of Debt Securities,”
- trusts and estates,
- regulated investment companies, or “RICs,”
- REITs, financial institutions,
- insurance companies,
- subchapter S corporations,
- foreign (non-U.S. governments),
- persons subject to the alternative minimum tax provisions of the Code,
- persons holding the shares as part of a “hedge,” “straddle,” “conversion,” “synthetic security” or other integrated investment,
- persons holding the shares through a partnership or similar pass-through entity,
- persons with a “functional currency” other than the U.S. dollar,
- persons holding 10% or more (by vote or value) of the beneficial interest in us, except to the extent discussed below,
- persons who do not hold the shares as a “capital asset,” within the meaning of Section 1221 of the Code,
- corporations subject to the provisions of Section 7874 of the Code,
- U.S. expatriates, or
- persons otherwise subject to special tax treatment under the Code.

This summary does not address state, local or non-U.S. tax considerations. This summary also does not consider tax considerations that may be relevant with respect to securities we (or our operating partnership) may issue, or selling security holders may sell, other than our shares and certain debt instruments of our operating partnership described below. Each time we or selling security holders sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that sale and may add to, modify or update the discussion below as appropriate.

Each prospective investor is advised to consult his or her tax advisor to determine the impact of his or her personal tax situation on the anticipated tax consequences of the acquisition, ownership and sale of our shares, warrants, and rights, and/or debt securities issued by our operating partnership. This includes the U.S. federal, state, local, foreign and other tax considerations of the ownership and sale of our shares, warrants, and rights, and/or debt securities issued by our operating partnership and the potential changes in applicable tax laws.

New Tax Reform Legislation Enacted December 22, 2017

On December 22, 2017, the President signed into law H.R. 1 (Tax Cuts and Jobs Act), which generally takes effect for taxable years beginning on or after January 1, 2018. This legislation makes many changes to the U.S. federal income tax laws that significantly impact the taxation of individuals, corporations (both non-REIT “C” corporations as well as corporations that have elected to be taxed as REITs), and the taxation of taxpayers with overseas assets and operations. These changes are generally effective for taxable years beginning after December 31, 2017. However, a number of changes that reduce the tax rates applicable to non-corporate taxpayers (including a new 20% deduction for qualified REIT dividends that reduces the effective rate of regular income tax on such income), and also limit the ability of such taxpayers to claim certain deductions, will expire for taxable years beginning after 2025 unless Congress acts to extend them.

These changes will impact us and our shareholders in various ways, some of which are adverse relative to prior law, and this summary of material U.S. federal income tax considerations incorporates these changes where material. To date, the IRS has issued only limited guidance with respect to certain provisions of the new law. There are numerous interpretive issues and ambiguities that will require guidance and that are not clearly addressed in the Conference Report that accompanied H.R. 1. Technical corrections legislation will likely be needed to clarify certain of the new provisions and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or other legislative changes that may be needed to prevent unintended or unforeseen tax consequences will be enacted by Congress anytime soon.

Taxation of our Company as a REIT

We elected to be taxed as a REIT commencing with our first taxable year ended December 31, 2004. A REIT generally is not subject to U.S. federal income tax on the “REIT taxable income” (computed without regard to the dividends paid deduction and its net capital gain or loss) that it distributes to shareholders provided that the REIT meets the applicable REIT distribution requirements and other requirements for qualification as a REIT under the Code. We believe that we are organized and have operated and we intend to continue to operate, in a manner to qualify for taxation as a REIT under the Code. However, qualification and taxation as a REIT depends upon our ability to meet the various qualification tests imposed under the Code, including through our actual annual (or in some cases quarterly) operating results, requirements relating to income, asset ownership, distribution levels and diversity of share ownership, and the various other REIT qualification requirements imposed under the Code. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future change in our circumstances, we cannot provide any assurances that we will be organized or operated in a manner so as to satisfy the requirements for qualification and taxation as a REIT under the Code. See “-Failure to Qualify as a REIT.”

The sections of the Code that relate to our qualification and operation as a REIT are highly technical and complex. This discussion sets forth the material aspects of the sections of the Code that govern the U.S. federal income tax treatment of a REIT and its shareholders. This summary is qualified in its entirety by the applicable Code provisions, relevant rules and Treasury regulations, and related administrative and judicial interpretations.

Taxation of REITs in General

For each taxable year in which we qualify for taxation as a REIT, we generally will not be subject to U.S. federal corporate income tax on our REIT taxable income (computed without regard to the dividends paid deduction and its net capital gain or loss) that is distributed currently to our shareholders. This treatment substantially eliminates the “double taxation” at the corporate and stockholder levels that generally results from an investment in a non-REIT “C” corporation. A non-REIT “C” corporation is a corporation that generally is required to pay tax at the corporate level. Double taxation means taxation once at the corporate level when income is earned and once again at the shareholder level when the income is distributed. In general, the income that we generate is taxed only at the shareholder level upon a distribution of dividends to our shareholders.

U.S. shareholders generally will be subject to taxation on dividends distributed by us (other than designated capital gain dividends and “qualified dividend income”) at rates applicable to ordinary income, instead of at lower capital gain rates. For taxable years beginning after December 31, 2017 and before January 1, 2026, generally, U.S. shareholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. Capital gain dividends and qualified dividend income will continue to be subject to a maximum 20% rate.

Any net operating losses, foreign tax credits and other tax attributes of a REIT generally do not pass through to its shareholders, subject to special rules for certain items such as the capital gains that the REIT recognizes.

Even if we qualify for taxation as a REIT, we will be subject to U.S. federal income tax in the following circumstances:

1. We will be taxed at regular corporate rates on any undistributed REIT taxable income (computed without regard to the dividends paid deduction and its net capital gain or loss).
2. For years beginning prior to December 31, 2017, we may be subject to the “alternative minimum tax” on our undistributed items of tax preference, if any.
3. If we have (1) net income from the sale or other disposition of “foreclosure property” that is held primarily for sale to customers in the ordinary course of business, or (2) other non-qualifying income from foreclosure property, such income will be subject to tax at the highest corporate rate.
4. Our net income from “prohibited transactions” will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business other than foreclosure property.
5. If we fail to satisfy either the 75% gross income test or the 95% gross income test, as discussed below, but our failure is due to reasonable cause and not due to willful neglect and we nonetheless maintain our qualification as a REIT because of specified cure provisions, we will be subject to a 100% tax on an amount equal to (a) the greater of (1) the amount by which we fail the 75% gross income test or (2) the amount by which we fail the 95% gross income test, as the case may be, multiplied by (b) a fraction intended to reflect our profitability.
6. We will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the sum of amounts actually distributed, excess distributions from the preceding tax year and amounts retained for which U.S. federal income tax was paid, if we fail to make the required distributions by the end of a calendar year. The required distribution for each calendar year is equal to the sum of:
 - 85% of our REIT ordinary income for the year;
 - 95% of our REIT capital gain net income for the year other than capital gains we elect to retain and pay tax on as described below; and
 - any undistributed taxable income from prior taxable years.
7. We will be subject to a 100% penalty tax on certain rental income we receive when a taxable REIT subsidiary provides services to our tenants, on certain expenses deducted by a taxable REIT subsidiary on payments made to us and, effective for our taxable years beginning after December 31, 2015, on income for services rendered to us by a taxable REIT subsidiary, if the arrangements among us, our tenants, and our taxable REIT subsidiaries do not reflect arm's-length terms.
8. If we acquire any assets from a non-REIT “C” corporation in a carry-over basis transaction, we would be liable for corporate income tax, at the highest applicable corporate rate for the “built-in gain” with respect to those assets if we disposed of those assets within 5 years after they were acquired. To the extent that assets are transferred to us in a carry-over basis transaction by a partnership in which a corporation owns an interest, we will be subject to this tax in proportion to the non-REIT “C” corporation’s interest in the partnership. Built-in gain is the amount by which an asset’s fair market value exceeds its adjusted tax basis at the time we acquire the asset. The results described in this paragraph assume that the non-REIT “C” corporation will not elect, in lieu of this treatment, to be subject to an immediate tax when the asset is acquired by us. On July 1, 2014, we completed a merger with Inland Diversified Real Estate Trust, Inc. (“Inland Diversified”, the “Merger”) and we were the “successor” to Inland Diversified for U.S. federal income tax purposes as a result of the Merger. If Inland Diversified failed to qualify as a REIT for a taxable year before the Merger or for the year that includes the Merger, and no relief is available, as a result of the Merger we would be subject to tax on the built-in gain on each asset of Inland Diversified existing at the time of the Merger if we were to dispose of the Inland Diversified asset within five years following the Merger (i.e. before July 1, 2019).
9. We may elect to retain and pay U.S. federal income tax on our net long-term capital gain. In that case, a U.S. shareholder would include its proportionate share of our undistributed long-term capital gain (to the extent that

we make a timely designation of such gain to the shareholder) in its income, would be deemed to have paid the tax we paid on such gain, and would be allowed a credit for its proportionate share of the tax deemed to have been paid, and an adjustment would be made to increase the basis of the U.S. shareholder in our common shares.

10. If we violate the asset tests (other than certain de minimis violations) or other requirements applicable to REITs, as described below, but our failure is due to reasonable cause and not due to willful neglect and we nevertheless maintain our REIT qualification because of specified cure provisions, we will be subject to a tax equal to the greater of \$50,000 or the amount determined by multiplying the net income generated by such non-qualifying assets by the highest rate of tax applicable to non-REIT "C" corporations during periods when such assets would have caused us to fail the asset test.
11. If we fail to satisfy a requirement under the Code which would result in the loss of our REIT qualification, other than a failure to satisfy a gross income test, or an asset test as described in paragraph 10 above, but nonetheless maintain our qualification as a REIT because the requirements of certain relief provisions are satisfied, we will be subject to a penalty of \$50,000 for each such failure.
12. If we fail to comply with the requirements to send annual letters to our shareholders requesting information regarding the actual ownership of our shares and the failure was not due to reasonable cause or was due to willful neglect, we will be subject to a \$25,000 penalty or, if the failure is intentional, a \$50,000 penalty.
13. The earnings of any subsidiaries that are non-REIT "C" corporations, including any taxable REIT subsidiary, are subject to U.S. federal corporate income tax.
14. As the "successor" to Inland Diversified for U.S. federal income tax purposes as a result of the Merger, if Inland Diversified failed to qualify as a REIT for a taxable year before the Merger or for the taxable year that includes the Merger, and no relief is available, as a result of the Merger we would inherit any corporate income tax liabilities of Inland Diversified for Inland Diversified's open tax years (Inland Diversified's 2013 and 2014 tax years but possibly extending back six years or Inland Diversified's 2010 tax year through its 2014 tax year), including penalties and interest.

Notwithstanding our qualification as a REIT, we and our subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, and foreign income, property and other taxes on our assets, operations and/or net worth. We could also be subject to tax in situations and on transactions not presently contemplated.

Requirements for Qualification as a REIT

The Code defines a "REIT" as a corporation, trust or association:

- (1) that is managed by one or more trustees or directors;
- (2) that issues transferable shares or transferable certificates to evidence its beneficial ownership;
- (3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code;
- (4) that is neither a financial institution nor an insurance company within the meaning of certain provisions of the Code;
- (5) that is beneficially owned by 100 or more persons;
- (6) not more than 50% in value of the outstanding shares or other beneficial interest of which is owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities and as determined by applying certain attribution rules) during the last half of each taxable year;
- (7) that makes an election to be a REIT for the current taxable year, or has made such an election for a previous taxable year that has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;
- (8) that uses a calendar year for U.S. federal income tax purposes;

- (9) that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions; and
- (10) that has no earnings and profits from any non-REIT taxable year at the close of any taxable year.

The Code provides that conditions (1), (2), (3) and (4) above must be met during the entire taxable year and condition (5) above must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (5) and (6) do not apply until after the first taxable year for which an election is made to be taxed as a REIT. Condition (6) must be met during the last half of each taxable year. For purposes of determining share ownership under condition (6) above, a supplemental unemployment compensation benefits plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes generally is considered an individual. However, a trust that is a qualified trust under Code Section 401(a) generally is not considered an individual, and beneficiaries of a qualified trust are treated as holding shares of a REIT in proportion to their actuarial interests in the trust for purposes of condition (6) above.

We believe that we have been organized, have operated and have issued sufficient shares of beneficial interest with sufficient diversity of ownership to allow us to satisfy the above conditions. In addition, our declaration of trust contain restrictions regarding the transfer of shares of beneficial interest that are intended to assist us in continuing to satisfy the share ownership requirements described in conditions (5) and (6) above. If we fail to satisfy these share ownership requirements, we will fail to qualify as a REIT unless we qualify for certain relief provisions described below.

To monitor our compliance with condition (6) above, we are generally required to maintain records regarding the actual ownership of our shares. To do so, we must demand written statements each year from the record holders of specified percentages of our shares pursuant to which the record holders must disclose the actual owners of the shares (i.e., the persons required to include in gross income the dividends paid by us). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. A shareholder that fails or refuses to comply with the demand is required by Treasury regulations to submit a statement with its tax return disclosing the actual ownership of our stock and other information. If we comply with the record-keeping requirement and we do not know or, exercising reasonable diligence, would not have known of our failure to meet condition (6) above, then we will be treated as having met condition (6) above.

To qualify as a REIT, we cannot have at the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT taxable year. We elected to be taxed as a REIT beginning with our first taxable year in 2004 and we have not succeeded to any earnings and profits of a non-REIT "C" corporation. Therefore, we do not believe we have had any undistributed non-REIT earnings and profits. As the "successor" to Inland Diversified for U.S. federal income tax purposes as a result of the Merger, if Inland Diversified failed to qualify as a REIT for a taxable year before the Merger or for the taxable year that includes the Merger, and no relief is available, in connection with the Merger we would succeed to any earnings and profits accumulated by Inland Diversified for the taxable periods that it did not qualify as a REIT, and we would have to pay a special dividend and/or employ applicable deficiency dividend procedures (including significant interest payments to the IRS) to eliminate such earnings and profits. Although Inland Diversified believed that it was organized and operated in conformity with the requirements for qualification and taxation as a REIT for each of its taxable years prior to the Merger with us, Inland Diversified did not request a ruling from the IRS that it qualified as a REIT and thus no assurance can be given that it qualified as a REIT.

Effect of Subsidiary Entities

Ownership of Interests in Partnerships and Limited Liability Companies. In the case of a REIT which is a partner in a partnership or a member in a limited liability company treated as a partnership for U.S. federal income tax purposes, Treasury regulations provide that the REIT will be deemed to own its pro rata share of the assets of the partnership or limited liability company, as the case may be, based on its capital interests in such partnership or limited liability company. Also, the REIT will be deemed to be entitled to the income of the partnership or limited liability company attributable to its pro rata share of the assets of that entity. The character of the assets and gross income of the partnership or limited liability company retains the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income tests and the asset tests. Thus, our pro rata share of the assets and items of income of our operating partnership, including our operating partnership's share of these items of any partnership or limited liability company in which it owns an interest, are treated as our assets and items of income for purposes of applying the requirements described in this prospectus, including the income and asset tests described below.

We have included a brief summary of the rules governing the U.S. federal income taxation of partnerships and limited liability companies and their partners or members below in "-Tax Aspects of Our Ownership of Interests in the Operating Partnership and other Partnerships and Limited Liability Companies." We have control of our operating partnership and substantially all of the subsidiary partnerships and limited liability companies in which our operating partnership has invested and intend to

continue to operate them in a manner consistent with the requirements for our qualification and taxation as a REIT. In the future, we may be a limited partner or non-managing member in some of our partnerships and limited liability companies. If such a partnership or limited liability company were to take actions which could jeopardize our qualification as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a REIT income or asset test, and that we would not become aware of such action in a time frame which would allow us to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless entitled to relief, as described below.

Under the Bipartisan Budget Act of 2015, Congress revised the rules applicable to U.S. federal income tax audits of partnerships (such as certain of our subsidiaries) and the collection of any tax resulting from any such audits or other tax proceedings, generally for taxable years beginning after December 31, 2017. Under the new rules, the partnership itself may be liable for a hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership) between the year under audit and the year of the adjustment. The new rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners, subject to a higher rate of interest than otherwise would apply. Many questions remain as to how the new rules will apply, especially with respect to partners that are REITs, and it is not clear at this time what effect this new legislation will have on us. However, these changes could increase the U.S. federal income tax, interest, and/or penalties otherwise borne by us in the event of a U.S. federal income tax audit of a subsidiary partnership.

Ownership of Interests in Qualified REIT Subsidiaries. We may acquire 100% of the stock of one or more corporations that are qualified REIT subsidiaries. A corporation will qualify as a qualified REIT subsidiary if we own 100% of its stock and it is not a taxable REIT subsidiary. A qualified REIT subsidiary will not be treated as a separate corporation, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary will be treated as our assets, liabilities and such items (as the case may be) for all purposes of the Code, including the REIT qualification tests. For this reason, references in this discussion to our income and assets should be understood to include the income and assets of any qualified REIT subsidiary we own. Our ownership of the stock of a qualified REIT subsidiary will not violate the restrictions against ownership of securities of any one issuer which constitute more than 10% of the voting power or value of such issuer's securities or more than 5% of the value of our total assets, as described below in "-Asset Tests Applicable to REITs."

Ownership of Interests in Taxable REIT Subsidiaries. A taxable REIT subsidiary of ours is a corporation other than a REIT in which we directly or indirectly hold stock, and that has made a joint election with us to be treated as a taxable REIT subsidiary under Section 856(l) of the Code. A taxable REIT subsidiary also includes any corporation other than a REIT in which a taxable REIT subsidiary of ours owns, directly or indirectly, securities (other than certain "straight debt" securities), which represent more than 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to our tenants without causing us to receive impermissible tenant service income under the REIT gross income tests. A taxable REIT subsidiary is required to pay regular U.S. federal income tax, and state and local income tax where applicable, as a non-REIT "C" corporation. In addition, a taxable REIT subsidiary may be prevented from deducting interest on debt as discussed below in "-New Interest Deduction Limitation Enacted by H.R. 1." If dividends are paid to us by one or more of our taxable REIT subsidiaries, then a portion of the dividends we distribute to shareholders who are taxed at individual rates will generally be eligible for taxation at lower capital gains rates, rather than at ordinary income rates. See "-Taxation of U.S. Shareholders-Taxation of Taxable U.S. Shareholders-Qualified Dividend Income."

Generally, a taxable REIT subsidiary can perform impermissible tenant services without causing us to receive impermissible tenant services income under the REIT income tests. However, several provisions applicable to the arrangements between us and our taxable REIT subsidiaries ensure that such taxable REIT subsidiaries will be subject to an appropriate level of U.S. federal income taxation. For example, taxable REIT subsidiaries are limited in their ability to deduct interest payments in excess of a certain amount made directly or indirectly to us. In addition, we will be obligated to pay a 100% penalty tax on some payments we receive or on certain expenses deducted by our taxable REIT subsidiaries, and, for tax years beginning after December 31, 2015, on income earned by our taxable REIT subsidiaries for services provided to, or on behalf of, us, if the economic arrangements between us, our tenants and such taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties. Our taxable REIT subsidiaries, and any future taxable REIT subsidiaries acquired by us, may make interest and other payments to us and to third parties in connection with activities related to our properties. There can be no assurance that our taxable REIT subsidiaries will not be limited in their ability to deduct interest payments made to us. In addition, there can be no assurance that the IRS might not seek to impose the 100% penalty tax on a portion of payments received by us from, or expenses deducted by, or service income imputed to, our taxable REIT subsidiaries. See "-Failure to Satisfy the Gross Income Tests" for further discussion of these rules and the 100% penalty tax.

We own subsidiaries that have elected to be treated as taxable REIT subsidiaries for U.S. federal income tax purposes. Each of our taxable REIT subsidiaries is taxable as a non-REIT “C” corporation and has elected, together with us, to be treated as our taxable REIT subsidiary or is treated as a taxable REIT subsidiary under the 35% subsidiary rule discussed above. We may elect, together with other corporations in which we may own directly or indirectly stock, for those corporations to be treated as our taxable REIT subsidiaries.

Gross Income Tests

To qualify as a REIT, we must satisfy two gross income tests which are applied on an annual basis. First, in each taxable year at least 75% of our gross income (excluding gross income from prohibited transactions, certain hedging transactions, as described below, and certain foreign currency transactions) must be derived from investments relating to real property or mortgages on real property, including:

- “rents from real property”;
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- again from the sale of real property or mortgages on real property, in either case, not held for sale to customers;
- interest income derived from mortgage loans secured by real property; and
- income attributable to temporary investments of new capital in stocks and debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or issuance of debt obligations with at least a five-year term.

Second, at least 95% of our gross income in each taxable year (excluding gross income from prohibited transactions, certain hedging transactions, as described below, and certain foreign currency transactions) must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as (a) other dividends, (b) interest, and (c) gain from the sale or disposition of stock or securities, in either case, not held for sale to customers.

Beginning with our taxable years beginning on or after January 1, 2005, gross income from certain hedging transactions is excluded from gross income for purposes of the 95% gross income requirement. Similarly, gross income from certain hedging transactions entered into after July 30, 2008 is excluded from gross income for purposes of the 75% gross income test. See “-Requirements for Qualification as a REIT-Gross Income Tests-Income from Hedging Transactions.”

Rents from Real Property. Rents we receive will qualify as “rents from real property” for the purpose of satisfying the gross income requirements for a REIT described above only if several conditions are met. These conditions relate to the identity of the tenant, the computation of the rent payable, and the nature of the property lease.

- First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount we receive or accrue generally will not be excluded from the term “rents from real property” solely by reason of being based on a fixed percentage or percentages of receipts or sales;
- Second, we, or an actual or constructive owner of 10% or more of our shares, must not actually or constructively own 10% or more of the interests in the tenant, or, if the tenant is a corporation, 10% or more of the voting power or value of all classes of stock of the tenant. Rents received from such tenant that is a taxable REIT subsidiary, however, will not be excluded from the definition of “rents from real property” as a result of this condition if either (i) at least 90% of the space at the property to which the rents relate is leased to third parties, and the rents paid by the taxable REIT subsidiary are comparable to rents paid by our other tenants for comparable space or (ii) the property is a qualified lodging facility or a qualified health care property and such property is operated on behalf of the taxable REIT subsidiary by a person who is an “eligible independent contractor” (as described below) and certain other requirements are met;
- Third, rent attributable to personal property, leased in connection with a lease of real property, must not be greater than 15% of the total rent received under the lease. If this requirement is not met, then the portion of rent attributable to personal property will not qualify as “rents from real property”; and
- Fourth, for rents to qualify as rents from real property for the purpose of satisfying the gross income tests, we generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an “independent contractor” who is adequately compensated and from whom we derive no revenue or through a taxable REIT subsidiary. To the extent that impermissible services are provided by an independent contractor or taxable REIT subsidiary, the cost of the services generally must be borne by the independent contractor

or taxable REIT subsidiary. We anticipate that any services we provide directly to tenants will be “usually or customarily rendered” in connection with the rental of space for occupancy only and not otherwise considered to be provided for the tenants’ convenience. We may provide a minimal amount of “non-customary” services to tenants of our properties, other than through an independent contractor or taxable REIT subsidiary, but we intend that our income from these services will not exceed 1% of our total gross income from the property. If the impermissible tenant services income exceeds 1% of our total income from a property, then all of the income from that property will fail to qualify as rents from real property. If the total amount of impermissible tenant services income does not exceed 1% of our total income from the property, the services will not “taint” the other income from the property (that is, it will not cause the rent paid by tenants of that property to fail to qualify as rents from real property), but the impermissible tenant services income will not qualify as rents from real property. We are deemed to have received income from the provision of impermissible services in an amount equal to at least 150% of our direct cost of providing the service.

We monitor (and intend to continue to monitor) the activities provided at, and the non-qualifying income arising from, our properties and believe that we have not provided services at levels that will cause us to fail to meet the income tests. We provide services and may provide access to third party service providers at some or all of our properties. Based upon our experience in the retail markets where the properties are located, we believe that all access to service providers and services provided to tenants by us (other than through a qualified independent contractor or a taxable REIT subsidiary) either are usually or customarily rendered in connection with the rental of real property and not otherwise considered rendered to the occupant, or, if considered impermissible services, will not result in an amount of impermissible tenant service income that will cause us to fail to meet the income test requirements. However, we cannot provide any assurance that the IRS will agree with these positions.

Income we receive which is attributable to the rental of parking spaces at the properties will constitute rents from real property for purposes of the REIT gross income tests if the services provided with respect to the parking facilities are performed by independent contractors from whom we derive no income, either directly or indirectly, or by a taxable REIT subsidiary. We believe that the income we receive that is attributable to parking facilities will meet these tests and, accordingly, will constitute rents from real property for purposes of the REIT gross income tests.

We may in the future hold one or more hotel properties. We expect to lease any such hotel properties to our taxable REIT subsidiary (or to a joint venture entity in which our taxable REIT subsidiary will have an interest). In order for rent paid pursuant to a REIT’s leases to constitute “rents from real property,” the leases must be respected as true leases for U.S. federal income tax purposes. Accordingly, the leases cannot be treated as service contracts, joint ventures or some other type of arrangement. The determination of whether the leases are true leases for U.S. federal income tax purposes depends upon an analysis of all the surrounding facts and circumstances. We intend to structure the leases so that the leases will be respected as true leases for U.S. federal income tax purposes. With respect to the management of the hotel properties, the taxable REIT subsidiary (or the taxable REIT subsidiary-joint venture entity-lessee) intends to enter into a management contract with a hotel management company that qualifies as an “eligible independent contractor.” A taxable REIT subsidiary must not directly or indirectly operate or manage a lodging or health care facility or, generally, provide to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated. Although a taxable REIT subsidiary may not operate or manage a lodging facility, it may lease or own such a facility so long as the facility is a “qualified lodging facility” and is operated on behalf of the taxable REIT subsidiary by an “eligible independent contractor.” A “qualified lodging facility” is, generally, a hotel at which no authorized gambling activities are conducted, and includes the customary amenities and facilities operated as part of, or associated with, the hotel. “Customary amenities” must be customary for other properties of a comparable size and class owned by other owners unrelated to the REIT. An “eligible independent contractor” is an independent contractor that, at the time a management agreement is entered into with a taxable REIT subsidiary to operate a “qualified lodging facility,” is actively engaged in the trade or business of operating “qualified lodging facilities” for a person or persons unrelated to either the taxable REIT subsidiary or any REITs with which the taxable REIT subsidiary is affiliated. A hotel management company that otherwise would qualify as an “eligible independent contractor” with regard to a taxable REIT subsidiary of a REIT will not so qualify if the hotel management company and/or one or more actual or constructive owners of 10% or more of the hotel management company actually or constructively own more than 35% of the REIT, or one or more actual or constructive owners of more than 35% of the hotel management company own 35% or more of the REIT (determined with respect to a REIT whose shares are regularly traded on an established securities market by taking into account only the shares held by persons owning, directly or indirectly, more than 5% of the outstanding shares of the REIT and, if the stock of the eligible independent contractor is publicly traded, 5% of the publicly traded stock of the eligible independent contractor). We intend to take all steps reasonably practicable to ensure that none of our taxable REIT subsidiaries will engage in “operating” or “managing” any hotels and that the hotel management companies engaged to operate and manage hotels leased to or owned by the taxable REIT subsidiaries will qualify as “eligible independent contractors” with regard to those taxable REIT subsidiaries. We expect that rental income we receive, if any, that is attributable to the hotel properties will constitute rents from real property for purposes of the REIT gross income tests.

Interest Income. "Interest" generally will be non-qualifying income for purposes of the 75% or 95% gross income tests if it depends in whole or in part on the income or profits of any person. However, interest based on a fixed percentage or percentages of receipts or sales may still qualify under the gross income tests. We do not expect to derive significant amounts of interest that will not qualify under the 75% and 95% gross income tests.

Dividend Income. Our share of any dividends received from any taxable REIT subsidiaries will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. We do not anticipate that we will receive sufficient dividends from any taxable REIT subsidiaries to cause us to exceed the limit on non-qualifying income under the 75% gross income test. Dividends that we receive from other qualifying REITs will qualify for purposes of both REIT income tests.

Income from Hedging Transactions. From time to time we may enter into hedging transactions with respect to one or more of our assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap or cap agreements, option agreements, and futures or forward contracts. Income of a REIT, including income from a pass-through subsidiary, arising from "clearly identified" hedging transactions that are entered into to manage the risk of interest rate or price changes with respect to borrowings, including gain from the disposition of such hedging transactions, to the extent the hedging transactions hedge indebtedness incurred, or to be incurred, by the REIT to acquire or carry real estate assets (each such hedge, a "Borrowings Hedge"), will not be treated as gross income for purposes of either the 95% gross income test or the 75% gross income test. Income of a REIT arising from hedging transactions that are entered into to manage the risk of currency fluctuations with respect to our investments (each such hedge, a "Currency Hedge") will not be treated as gross income for purposes of either the 95% gross income test or the 75% gross income test provided that the transaction is "clearly identified." Effective for taxable years beginning after December 31, 2015, this exclusion from the 95% and 75% gross income tests also will apply if we previously entered into a Borrowings Hedge or a Currency Hedge, a portion of the hedged indebtedness or property is disposed of, and in connection with such extinguishment or disposition we enter into a new "clearly identified" hedging transaction to offset the prior hedging position. In general, for a hedging transaction to be "clearly identified," (1) it must be identified as a hedging transaction before the end of the day on which it is acquired, originated, or entered into; and (2) the items of risks being hedged must be identified "substantially contemporaneously" with entering into the hedging transaction (generally not more than 35 days after entering into the hedging transaction). To the extent that we hedge with other types of financial instruments or in other situations, the resultant income will be treated as income that does not qualify under the 95% or 75% gross income tests unless the hedge meets certain requirements and we elect to integrate it with a specified asset and to treat the integrated position as a synthetic debt instrument. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT but there can be no assurance we will be successful in this regard.

Income from Prohibited Transactions. Any gain that we realize on the sale of any property held as inventory or otherwise held primarily for sale to customers in the ordinary course of business, including our share of any such gain realized by our operating partnership, either directly or through its subsidiary partnerships and limited liability companies, will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. However, effective for sales after July 30, 2008, we will not be treated as a dealer in real property with respect to a property that we sell for the purposes of the 100% tax if (i) we have held the property for at least two years for the production of rental income prior to the sale, (ii) capitalized expenditures on the property in the two years preceding the sale are less than 30% of the net selling price of the property, and (iii) we either (a) have seven or fewer sales of property (excluding certain property obtained through foreclosure) for the year of sale or (b) the aggregate tax basis of property sold during the year is 10% or less of the aggregate tax basis of all of our assets as of the beginning of the taxable year, (c) the fair market value of property sold during the year is 10% or less of the aggregate fair market value of all of our assets as of the beginning of the taxable year; or (d) effective for taxable years beginning after December 31, 2015, the aggregate adjusted basis of property sold during the year is 20% or less of the aggregate adjusted basis of all of our assets as of the beginning of the taxable year and the aggregate adjusted basis of property sold during the 3-year period ending with the year of sale is 10% or less of the aggregate tax basis of all of our assets as of the beginning of each of the three taxable years ending with the year of sale; or (e) effective for taxable years beginning after December 31, 2015, the fair market value of property sold during the year is 20% or less of the aggregate fair market value of all of our assets as of the beginning of the taxable year and the fair market value of property sold during the 3-year period ending with the year of sale is 10% or less of the aggregate fair market value of all of our assets as of the beginning of each of the three taxable years ending with the year of sale. If we rely on clauses (b), (c), (d), or (e) in the preceding sentence, substantially all of the marketing and development expenditures with respect to the property sold must be made through an independent contractor from whom we derive no income or, effective for taxable years beginning after December 31, 2015, our TRS. The sale of more than one property to one buyer as part of one transaction constitutes one sale for purposes of this "safe harbor."

We intend to hold our properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning our properties and to make occasional sales of the properties as are consistent with our investment

objectives. However, the IRS may successfully contend that some or all of the sales made by us or our operating partnership or its subsidiary partnerships or limited liability companies are prohibited transactions. In that case, we would be required to pay the 100% penalty tax on our allocable share of the gains resulting from any such sales.

Income from Foreclosure Property. We generally will be subject to tax at the maximum corporate rate (effective for taxable years beginning after December 31, 2017, 21%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that constitutes qualifying income for purposes of the 75% gross income test. Foreclosure property is real property and any personal property incident to such real property (1) that we acquire as the result of having bid on the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after a default (or upon imminent default) on a lease of the property or a mortgage loan held by us and secured by the property, (2) for which we acquired the related loan or lease at a time when default was not imminent or anticipated, and (3) with respect to which we made a proper election to treat the property as foreclosure property. Any gain from the sale of property for which a foreclosure property election has been made and remains in place generally will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property. To the extent that we receive any income from foreclosure property that does not qualify for purposes of the 75% gross income test, we intend to make an election to treat the related property as foreclosure property if the election is available (which may not be the case with respect to any acquired “distressed loans”).

Failure to Satisfy the Gross Income Tests. If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are entitled to relief under the Code. These relief provisions will be generally available if (1) our failure to meet these tests was due to reasonable cause and not due to willful neglect and (2) following our identification of the failure to meet the 75% and/or 95% gross income tests for any taxable year, we file a schedule with the IRS setting forth a description of each item of our gross income that satisfies the gross income tests for purposes of the 75% or 95% gross income test for such taxable year in accordance with Treasury regulations. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. If these relief provisions are inapplicable to a particular set of circumstances, we will fail to qualify as a REIT. As discussed above, under “- Taxation of our Company as a REIT - General,” even if these relief provisions apply, a tax would be imposed based on the amount of non-qualifying income. We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the income tests applicable to REITs.

Any redetermined rents, redetermined deductions, excess interest, or redetermined TRS service income we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by one of our taxable REIT subsidiaries to any of our tenants, redetermined deductions and excess interest represent amounts that are deducted by a taxable REIT subsidiary for amounts paid to us that are in excess of the amounts that would have been deducted based on arm’s-length negotiations, and redetermined TRS service income is gross income (less deductions allocable thereto) of a taxable REIT subsidiary attributable to services provided to, or on behalf of, us that is less than the amounts that would have been paid by us to the taxable REIT subsidiary if based on arm’s-length negotiations. Rents we receive will not constitute redetermined rents if they qualify for the safe harbor provisions contained in the Code. Safe harbor provisions are provided where:

- amounts are excluded from the definition of impermissible tenant service income as a result of satisfying the 1% de minimis exception;
- a taxable REIT subsidiary renders a significant amount of similar services to unrelated parties and the charges for such services are substantially comparable;
- rents paid to us by tenants leasing at least 25% of the net leasable space of the REIT’s property who are not receiving services from the taxable REIT subsidiary are substantially comparable to the rents paid by the REIT’s tenants leasing comparable space who are receiving such services from the taxable REIT subsidiary and the charge for the service is separately stated; or
- the taxable REIT subsidiary’s gross income from the service is not less than 150% of the taxable REIT subsidiary’s direct cost of furnishing the service.

While we anticipate that any fees paid to a taxable REIT subsidiary for tenant services will reflect arm’s-length rates, a taxable REIT subsidiary may under certain circumstances provide tenant services which do not satisfy any of the safe-harbor provisions described above. Nevertheless, these determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, we would be required to pay a 100% penalty tax on the redetermined rent, redetermined deductions or excess interest, as applicable.

Asset Tests

At the close of each calendar quarter, we must satisfy the following tests relating to the nature and diversification of our assets. For purposes of the asset tests, a REIT is not treated as owning the stock of a qualified REIT subsidiary or an equity interest in any entity treated as a partnership otherwise disregarded for U.S. federal income tax purposes. Instead, a REIT is treated as owning its proportionate share of the assets held by such entity.

- At least 75% of the value of our total assets must be represented by some combination of “real estate assets,” cash, cash items, U.S. government securities, and, in some circumstances, stock or debt instruments purchased with new capital. For purposes of this test, real estate assets include interests in real property, such as land and buildings, leasehold interests in real property, stock of other corporations that qualify as REITs (and, effective for tax years beginning after December 31, 2015, debt instruments issued by publicly offered REITs, interests in mortgages on interests in real property and personal property leased in connection with real property to the extent that rents attributable to such personal property are treated as “rents from real property”), and some types of mortgage-backed securities and mortgage loans. Assets that do not qualify for purposes of the 75% asset test are subject to the additional asset tests described below.
- Not more than 25% of our total assets may be represented by securities other than those described in the first bullet above;
- Except for securities described in the first bullet above and the last bullet below and securities in qualified REIT subsidiaries and taxable REIT subsidiaries, the value of any one issuer’s securities owned by us may not exceed 5% of the value of our total assets.
- Except for securities described in the first bullet above and the last bullet below and securities in qualified REIT subsidiaries and taxable REIT subsidiaries we may not own more than 10% of any one issuer’s outstanding voting securities.
- Except for securities described in the first bullet above and the last bullet below and securities in qualified REIT subsidiaries and taxable REIT subsidiaries, and certain types of indebtedness that are not treated as securities for purposes of this test, as discussed below, we may not own more than 10% of the total value of the outstanding securities of any one issuer.
- Not more than 25% (20% for tax years beginning after December 31, 2017) of the value of our total assets may be represented by the securities of one or more TRSs.
- For taxable years beginning after December 31, 2015, not more than 25% of our total assets may be represented by debt instruments issued by publicly offered REITs that are “nonqualified” debt instruments (e.g., not secured by interests in mortgages on interests in real property and personal property leased in connection with real property to the extent that rents attributable to such personal property are treated as “rents from real property”).

The 10% value test does not apply to certain “straight debt” and other excluded securities, as described in the Code, including (1) loans to individuals or estates; (2) obligations to pay rent from real property; (3) rental agreements described in Section 467 of the Code; (4) any security issued by other REITs; (5) certain securities issued by a state, the District of Columbia, a foreign government, or a political subdivision of any of the foregoing, or the Commonwealth of Puerto Rico; and (6) any other arrangement as determined by the IRS. In addition, (1) a REIT’s interest as a partner in a partnership is not considered a security for purposes of the 10% value test; (2) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by the partnership if at least 75% of the partnership’s gross income is derived from sources that would qualify for the 75% REIT gross income test; and (3) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by a partnership to the extent of the REIT’s interest as a partner in the partnership.

For purposes of the 10% value test, debt will meet the “straight debt” safe harbor if (1) neither us, nor any of our controlled taxable REIT subsidiaries (i.e., taxable REIT subsidiaries more than 50% of the vote or value of the outstanding stock of which is directly or indirectly owned by us), own any securities not described in the preceding paragraph that have an aggregate value greater than one percent of the issuer’s outstanding securities, as calculated under the Code, (2) the debt is a written unconditional promise to pay on demand or on a specified date a sum certain in money, (3) the debt is not convertible, directly or indirectly, into stock, and (4) the interest rate and the interest payment dates of the debt are not contingent on the profits, the borrower’s discretion or similar factors. However, contingencies regarding time of payment and interest are permissible for purposes of qualifying as a straight debt security if either (1) such contingency does not have the effect of changing the effective yield of maturity, as determined under the Code, other than a change in the annual yield to maturity that does not exceed the greater of (i) 5% of the annual yield to maturity or (ii) 0.25%, or (2) neither the aggregate issue price nor the aggregate face amount of the issuer’s debt instruments held by the REIT exceeds \$1,000,000 and not more than 12 months of unaccrued interest can be required to be prepaid thereunder. In addition, debt will not be disqualified from being treated as “straight debt” solely because the time or amount of payment is subject to a

contingency upon a default or the exercise of a prepayment right by the issuer of the debt, provided that such contingency is consistent with customary commercial practice.

Our operating partnership owns 100% of the interests of one or more taxable REIT subsidiaries. We are considered to own our pro rata share (based on our ownership in the operating partnership) of the interests in each taxable REIT subsidiary equal to our proportionate share (by capital) of the operating partnership. Each taxable REIT subsidiary has elected, together with us, to be treated as our taxable REIT subsidiary. So long as each taxable REIT subsidiary qualifies as such, we will not be subject to the 5% asset test, 10% voting securities limitation or 10% value limitation with respect to our ownership interest in each taxable REIT subsidiary. In the future, we may elect, together with other corporations in which we own directly or indirectly stock, for those corporations to be treated as our taxable REIT subsidiaries. We believe that the aggregate value of our interests in our taxable REIT subsidiaries does not exceed, and believe that in the future it will not exceed, 25% (20% for tax years beginning after December 31, 2017) of the aggregate value of our gross assets. To the extent that we own an interest in an issuer that does not qualify as a REIT, a qualified REIT subsidiary, or a taxable REIT subsidiary, we believe that our pro rata share of the value of the securities, including debt, of any such issuer does not exceed 5% of the total value of our assets. Moreover, with respect to each issuer in which we own an interest that does not qualify as a qualified REIT subsidiary or a taxable REIT subsidiary, we believe that our ownership of the securities of any such issuer complies with the 10% voting securities limitation and 10% value limitation.

No independent appraisals have been obtained to support these conclusions and we cannot provide any assurance that the IRS might disagree with our determinations.

Failure to Satisfy the Asset Tests. The asset tests must be satisfied not only on the last day of the calendar quarter in which we, directly or through pass-through subsidiaries, acquire securities in the applicable issuer, but also on the last day of the calendar quarter in which we increase our ownership of securities of such issuer, including as a result of increasing our interest in pass-through subsidiaries. After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests solely by reason of changes in the relative values of our assets (including, for tax years beginning after July 30, 2008, a discrepancy caused solely by the change in the foreign currency exchange rate used to value a foreign asset). If failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, we can cure this failure by disposing of sufficient non-qualifying assets within 30 days after the close of that quarter. An acquisition of securities could include an increase in our interest in our operating partnership, the exercise by limited partners of their redemption right relating to units in the operating partnership or an additional capital contribution of proceeds of an offering of our shares of beneficial interest. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take any available action within 30 days after the close of any quarter as may be required to cure any noncompliance with the asset tests. Although we plan to take steps to ensure that we satisfy such tests for any quarter with respect to which testing is to occur, there can be no assurance that such steps will always be successful. If we fail to timely cure any noncompliance with the asset tests, we would cease to qualify as a REIT, unless we satisfy certain relief provisions.

The failure to satisfy the 5% asset test, or the 10% vote or value asset tests can be remedied even after the 30-day cure period under certain circumstances. Specifically, if we fail these asset tests at the end of any quarter and such failure is not cured within 30 days thereafter, we may dispose of sufficient assets (generally within six months after the last day of the quarter in which our identification of the failure to satisfy these asset tests occurred) to cure such a violation that does not exceed the lesser of 1% of our assets at the end of the relevant quarter or \$10,000,000. If we fail any of the other asset tests or our failure of the 5% and 10% asset tests is in excess of the *de minimis* amount described above, as long as such failure was due to reasonable cause and not willful neglect, we are permitted to avoid disqualification as a REIT, after the 30-day cure period, by taking steps including the disposing of sufficient assets to meet the asset test (generally within six months after the last day of the quarter in which our identification of the failure to satisfy the REIT asset test occurred), paying a tax equal to the greater of \$50,000 or the highest corporate income tax rate of the net income generated by the non-qualifying assets during the period in which we failed to satisfy the asset test, and filing in accordance with applicable Treasury regulations a schedule with the IRS that describes the assets that caused us to fail to satisfy the asset test(s). We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the asset tests applicable to REITs. In certain circumstances, utilization of such provisions could result in us being required to pay an excise or penalty tax, which could be significant in amount.

Annual Distribution Requirements

To qualify as a REIT, we are required to distribute dividends, other than capital gain dividends, to our shareholders each year in an amount at least equal to:

- the sum of: (1) 90% of our “REIT taxable income,” (computed without regard to the dividends paid deduction and its net capital gain or loss); and (2) 90% of our after tax net income, if any, from foreclosure property; minus

- the sum of specified items of non-cash income.

For purposes of this test, non-cash income means income attributable to leveled stepped rents, original issue discount included in our taxable income without the receipt of a corresponding payment, cancellation of indebtedness or a like-kind exchange that is later determined to be taxable.

We generally must make dividend distributions in the taxable year to which they relate. Dividend distributions may be made in the following year in two circumstances. First, if we declare a dividend in October, November, or December of any year with a record date in one of these months and pay the dividend on or before January 31 of the following year. Such distributions are treated as both paid by us and received by each shareholder on December 31 of the year in which they are declared. Second, distributions may be made in the following year if they are declared before we timely file our tax return for the year and if made with or before the first regular dividend payment after such declaration. These distributions are taxable to our shareholders in the year in which paid, even though the distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

In order for distributions to be counted as satisfying the annual distribution requirement for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be “preferential dividends.” A dividend is not a preferential dividend if the distribution is (1) *pro rata* among all outstanding shares of stock within a particular class, and (2) in accordance with the preferences among different classes of stock as set forth in our organizational documents. This requirement does not apply to publicly offered REITs, including us, with respect to distributions made in tax years beginning after 2014, but would apply to us if we ceased to qualify as a publicly offered REIT and has applied and will continue to apply to subsidiary REITs, if any.

To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our “REIT taxable income” (computed without regard to the dividends paid deduction and its net capital gain or loss), we will be required to pay tax on that amount at regular corporate tax rates. We intend to make timely distributions sufficient to satisfy these annual distribution requirements. In this regard, the partnership agreement of our operating partnership authorizes us, as general partner of our operating partnership, to take such steps as may be necessary to cause our operating partnership to distribute to its partners an amount sufficient to permit us to meet these distribution requirements. In certain circumstances we may elect to retain, rather than distribute, our net long-term capital gains and pay tax on such gains. In this case, we could elect for our shareholders to include their proportionate share of such undistributed long-term capital gains in income, and to receive a corresponding credit for their share of the tax that we paid. Our shareholders would then increase their adjusted basis of their stock by the difference between (1) the amounts of capital gain dividends that we designated and that they included in their taxable income, minus (2) the tax that we paid on their behalf with respect to that income.

To the extent that in the future we may have available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. Such losses, however, (1) will generally not affect the character, in the hands of our shareholders, of any distributions that are actually made as ordinary dividends or capital gains; and (2) cannot be passed through or used by our shareholders. See “-Taxation of U.S. Shareholders-Taxation of Taxable U.S. Shareholders-Distributions Generally.”

If we fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed, and (y) the amounts of income we retained and on which we paid corporate income tax.

In addition, if we were to recognize built-in-gain on the disposition of any assets acquired from a non-REIT “C” corporation in a transaction in which our basis in the assets was determined by reference to the non-REIT “C” corporation’s basis (for instance, if the assets were acquired in a tax-free reorganization), we would be required to distribute at least 90% of the built-in-gain net of the tax we would pay on such gain. This distribution requirement could be triggered, for example, if we were to dispose of an Inland Diversified asset within five years following the Merger (i.e. before July 1, 2019) and (a) Inland Diversified failed to qualify as a REIT for a taxable year before the Merger, or for the year that includes the Merger, and no relief is available, and (b) the Inland Diversified asset had built-in gain (as measured at the time of the Merger).

We expect that our REIT taxable income (computed without regard to the dividends paid deduction and its net capital gain or loss) will be less than our cash flow because of depreciation and other non-cash charges included in computing REIT taxable income (computed without regard to the dividends paid deduction and its net capital gain or loss). Accordingly, we anticipate that we will generally have sufficient cash or liquid assets to enable us to satisfy the distribution requirements described above. However, from time to time, we may not have sufficient cash or other liquid assets to meet these distribution requirements due to timing differences between the actual receipt of income and actual payment of deductible expenses, and the inclusion of income and deduction of expenses in arriving at our taxable income. If these timing differences occur, we may need to arrange for short-term, or

possibly long-term, borrowings or need to pay dividends in the form of taxable dividends in order to meet the distribution requirements. Further, under amendments to Section 451 of the Code made by H.R. 1, subject to certain exceptions, we must accrue income for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, which could create additional differences between REIT taxable income and the receipt of cash attributable to such income.

We may be able to rectify a failure to meet the distribution requirement for a year by paying “deficiency dividends” to our shareholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends. However, we will be required to pay interest to the IRS based upon the amount of any deduction claimed for deficiency dividends.

New Interest Deduction Limitation Enacted by H.R. 1

Commencing in taxable years beginning after December 31, 2017, Section 163(j) of the Code, as amended by H.R. 1, limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30% of “adjusted taxable income,” subject to certain exceptions. Any deduction in excess of the limitation is carried forward and may be used in a subsequent year, subject to the 30% limitation. Adjusted taxable income is determined without regard to certain deductions, including those for net interest expense, net operating loss carryforwards and, for taxable years beginning before January 1, 2022, depreciation, amortization and depletion. Provided the taxpayer makes a timely election (which is irrevocable), the 30% limitation does not apply to a trade or business involving real property development, redevelopment, construction, reconstruction, rental, operation, acquisition, conversion, disposition, management, leasing or brokerage, within the meaning of Section 469(c)(7)(C) of the Code. If this election is made, depreciable real property (including certain improvements) held by the relevant trade or business must be depreciated under the alternative depreciation system under the Code, which is generally less favorable than the generally applicable system of depreciation under the Code. If we do not make the election or if the election is determined not to be available with respect to all or certain of our business activities, the new interest deduction limitation could result in us having more REIT taxable income and thus increase the amount of distributions we must make to comply with the REIT requirements and avoid incurring corporate level tax. Similarly, the limitation could cause our TRSs to have greater taxable income and thus potentially greater corporate tax liability.

Record-Keeping Requirements

We are required to comply with applicable record-keeping requirements. Failure to comply could result in monetary fines.

Failure to Qualify as a REIT

If we fail to satisfy one or more requirements for REIT qualification other than gross income and asset tests that have the specific savings clauses, we can avoid termination of our REIT qualification by paying a penalty of \$50,000 for each such failure, provided that our noncompliance was due to reasonable cause and not willful neglect.

If we fail to qualify for taxation as a REIT in any taxable year and the relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. If we fail to qualify for taxation as a REIT, we will not be required to make any distributions to shareholders, and any distributions that are made to shareholders will not be deductible by us. As a result, our failure to qualify for taxation as a REIT would significantly reduce the cash available for distributions by us to our shareholders. In addition, if we fail to qualify for taxation as a REIT, all distributions to shareholders, to the extent of our current and accumulated earnings and profits, will be taxable as regular corporate dividends. For taxable years prior to 2026, generally U.S. shareholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. Alternatively, such dividends paid to U.S. shareholders that are individuals, trusts and estates may be taxable at the preferential income tax rates (i.e., the 20% maximum U.S. federal rate) for qualified dividends. In addition, subject to the limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless entitled to relief under specific statutory provisions, we also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. In addition, if we merge with another REIT and we are the “successor” to the other REIT, the other REIT’s disqualification from taxation as a REIT would prevent us from being taxed as a REIT for the four taxable years following the year during which the other REIT’s qualification was lost. As the “successor” to Inland Diversified for U.S. federal income tax purposes as a result of the Merger, the rule against re-electing REIT status following a loss of such status also would apply to us if Inland Diversified failed to qualify as a REIT in any of its 2012 through 2014 tax years. Although Inland Diversified believed that it was organized and operated in conformity with the requirements for qualification and taxation as a REIT for each of its taxable years prior to the Merger, Inland Diversified did not request a ruling from the IRS that it qualified as a REIT and thus no assurance can be given that it qualified as a REIT. There can be no assurance that we would be

entitled to any statutory relief. We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the requirements applicable to REITs.

Tax Aspects of Our Ownership of Interests in the Operating Partnership and other Partnerships and Limited Liability Companies

General

Substantially all of our investments are owned indirectly through Kite Realty Group, L.P., our operating partnership. In addition, our operating partnership holds certain of its investments indirectly through subsidiary partnerships and limited liability companies that we believe are treated as partnerships or as disregarded entities for U.S. federal income tax purposes. In general, entities that are classified as partnerships or as disregarded entities for U.S. federal income tax purposes are “pass-through” entities which are not required to pay U.S. federal income tax. Rather, partners or members of such entities are allocated their pro rata shares of the items of income, gain, loss, deduction and credit of the entity, and are required to include these items in calculating their U.S. federal income tax liability, without regard to whether the partners or members receive a distribution of cash from the entity. We include in our income our pro rata share of the foregoing items for purposes of the various REIT gross income tests and in the computation of our REIT taxable income (computed without regard to the dividends paid deduction and its net capital gain or loss). Moreover, for purposes of the REIT asset tests, we include our pro rata share of assets, based on capital interests, of assets held by our operating partnership, including its share of its subsidiary partnerships and limited liability companies. See “-Requirements for Qualification as a REIT-Effect of Subsidiary Entities-Ownership of Interests in Partnerships and Limited Liability Companies.”

Entity Classification

Our interests in our operating partnership and the subsidiary partnerships and limited liability companies involve special tax considerations, including the possibility that the IRS might challenge the status of one or more of these entities as a partnership or disregarded entity, and assert that such entity is an association taxable as a corporation for U.S. federal income tax purposes. If our operating partnership, or a subsidiary partnership or limited liability company, were treated as an association, it would be taxable as a corporation and would be required to pay an entity-level tax on its income. In this situation, the character of our assets and items of gross income could change and could preclude us from satisfying the REIT asset tests and possibly the REIT income tests. See “-Requirements for Qualification as a REIT-Gross Income Tests,” and “-Asset Tests.” This, in turn, would prevent us from qualifying as a REIT. See “-Failure to Qualify as a REIT” for a discussion of the effect of our failure to meet these tests for a taxable year. In addition, a change in our operating partnership’s or a subsidiary partnership’s or limited liability company’s status as a partnership for tax purposes might be treated as a taxable event. If so, we might incur a tax liability without any related cash distributions.

We believe our operating partnership and each of our other partnerships and limited liability companies (other than our taxable REIT subsidiaries) will be treated for U.S. federal income tax purposes as a partnership or disregarded entity. Pursuant to Treasury regulations under Section 7701 of the Code, a partnership will be treated as a partnership for U.S. federal income tax purposes unless it elects to be treated as a corporation or would be treated as a corporation because it is a “publicly traded partnership.” A “publicly traded partnership” is any partnership (i) the interests in which are traded on an established securities market or (ii) the interests in which are readily tradable on a “secondary market or the substantial equivalent thereof.”

The Company and the operating partnership currently take the reporting position for U.S. federal income tax purposes that the operating partnership is not a publicly traded partnership. There is a risk, however, that the right of a holder of operating partnership units to redeem the units for common shares could cause operating partnership units to be considered readily tradable on the substantial equivalent of a secondary market. Under the relevant Treasury regulations, interests in a partnership will not be considered readily tradable on a secondary market or on the substantial equivalent of a secondary market if the partnership qualifies for specified “safe harbors,” which are based on the specific facts and circumstances relating to the partnership. We and the operating partnership believe that the operating partnership will qualify for at least one of these safe harbors at all times in the foreseeable future. The operating partnership cannot provide any assurance that it will continue to qualify for one of the safe harbors mentioned above.

If the operating partnership is a publicly traded partnership, it will be taxed as a corporation unless at least 90% of its gross income consists of “qualifying income” under Section 7704 of the Code. Qualifying income is generally real property rents and other types of passive income. We believe that the operating partnership will have sufficient qualifying income so that it would be taxed as a partnership, even if it were a publicly traded partnership. The income requirements applicable to us in order for us to qualify as a REIT under the Code and the definition of qualifying income under the publicly traded partnership rules are very similar. Although differences exist between these two income tests, we do not believe that these differences would cause the operating partnership not to satisfy the 90% gross income test applicable to publicly traded partnerships.

If our operating partnership were taxable as a corporation, most, if not all, of the tax consequences described herein would be inapplicable. In particular, we would not qualify as a REIT because the value of our ownership interest in our operating partnership would exceed 5% of our assets and we would be considered to hold more than 10% of the voting securities (and more than 10% of the value of the outstanding securities) of another corporation (see “-Requirements for Qualification as a REIT-Asset Tests” above). In this event, the value of our shares could be materially adversely affected (see “-Failure to Qualify as a REIT” above).

Allocations of Partnership Income, Gain, Loss and Deduction

The partnership agreement generally provides that items of operating income and loss will be allocated to the holders of units in proportion to the number of units held by each such unit holder. Certain limited partners have agreed, or may agree in the future, to guarantee debt of our operating partnership, either directly or indirectly through an agreement to make capital contributions to our operating partnership under limited circumstances. As a result of these guarantees or contribution agreements, such limited partners could under limited circumstances be allocated net loss that would have otherwise been allocable to us.

If an allocation of partnership income or loss does not comply with the requirements of Section 704(b) of the Code and the Treasury regulations thereunder, the item subject to the allocation will be reallocated in accordance with the partners’ interests in the partnership. This reallocation will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Our operating partnership’s allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Code and the Treasury regulations promulgated under this section of the Code.

Tax Allocations with Respect to the Properties

Under Section 704(c) of the Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership, must be allocated in a manner so that the contributing partner is charged with the unrealized gain or benefits from the unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value or book value and the adjusted tax basis of the property at the time of contribution. These allocations are solely for U.S. federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. The partnership agreement requires that these allocations be made in a manner consistent with Section 704(c) of the Code.

Treasury regulations issued under Section 704(c) of the Code provide partnerships with a choice of several methods of accounting for book-tax differences. We and our operating partnership have agreed to use the “traditional method” for accounting for book-tax differences for the properties initially contributed to our operating partnership. Under the traditional method, which is the least favorable method from our perspective, the carryover basis of contributed properties in the hands of our operating partnership (i) may cause us to be allocated lower amounts of depreciation and other deductions for tax purposes than would be allocated to us if all contributed properties were to have a tax basis equal to their fair market value at the time of the contribution and (ii) in the event of a sale of such properties, could cause us to be allocated taxable gain in excess of our corresponding economic or book gain (or taxable loss that is less than our economic or book loss) with respect to the sale, with a corresponding benefit to the contributing partners. Therefore, the use of the traditional method could result in our having taxable income that is in excess of economic income and our cash distributions from the operating partnership. This excess taxable income is sometimes referred to as “phantom income” and will be subject to the REIT distribution requirements described in “-Annual Distribution Requirements.” Because we rely on our cash distributions from the operating partnership to meet the REIT distribution requirements, the phantom income could adversely affect our ability to comply with the REIT distribution requirements and cause our shareholders to recognize additional dividend income without an increase in distributions. See “-Requirements for Qualification as a REIT” and “-Annual Distribution Requirements.” We and our operating partnership have not yet decided what method will be used to account for book-tax differences for other properties acquired by our operating partnership in the future. Any property acquired by our operating partnership in a taxable transaction will initially have a tax basis equal to its fair market value and, accordingly, Section 704(c) of the Code will not apply.

Taxation of U.S. Shareholders

Taxation of Taxable U.S. Shareholders

This section summarizes the taxation of U.S. shareholders that are not tax-exempt organizations. For these purposes, the term “U.S. shareholder” is a beneficial owner of our shares that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;

- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of a political subdivision thereof (including the District of Columbia);
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- any trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) it has a valid election in place to be treated as a U.S. person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our shares, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our shares should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of our shares by the partnership.

Distributions Generally. So long as we qualify as a REIT, distributions out of our current or accumulated earnings and profits that are not designated as capital gains dividends or “qualified dividend income” will be taxable to our taxable U.S. shareholders as ordinary income and will not be eligible for the dividends-received deduction in the case of U.S. shareholders that are corporations. For purposes of determining whether distributions to holders of shares are out of current or accumulated earnings and profits, our earnings and profits will be allocated first to any outstanding preferred shares and then to our outstanding common shares. Dividends received from REITs are generally not eligible to be taxed at the preferential qualified dividend income rates currently available to individual U.S. shareholders who receive dividends from taxable non-REIT “C” corporations. However, for taxable years prior to 2026, generally U.S. stockholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations.

Capital Gain Dividends. We may elect to designate distributions of our net capital gain as “capital gain dividends.” Distributions that we properly designate as “capital gain dividends” will be taxable to our taxable U.S. shareholders as long-term capital gains without regard to the period for which the U.S. shareholder that receives such distribution has held its shares. Designations made by us will only be effective to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of shares be composed proportionately of dividends of a particular type. If we designate any portion of a dividend as a capital gain dividend, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the shareholder as capital gain. Corporate shareholders, however, may be required to treat up to 20% of some capital gain dividends as ordinary income. Recipients of capital gain dividends from us that are taxed at corporate income tax rates will be taxed at the normal corporate income tax rates on these dividends.

We may elect to retain and pay taxes on some or all of our net long-term capital gains, in which case U.S. shareholders will be treated as having received, solely for U.S. federal income tax purposes, our undistributed capital gains as well as a corresponding credit or refund, as the case may be, for taxes that we paid on such undistributed capital gains. A U.S. shareholder will increase the basis in its shares by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. A U.S. shareholder that is a corporation will appropriately adjust its earnings and profits for the retained capital gain in accordance with Treasury regulations to be prescribed by the IRS. Our earnings and profits will be adjusted appropriately.

We will classify portions of any designated capital gain dividend or undistributed capital gain as either:

- a long-term capital gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 20% (excluding the 3.8% tax on “net investment income,”), and, effective for taxable years beginning after December 31, 2017, taxable to U.S. shareholders that are corporations at a maximum rate of 21%; or
- an “unrecaptured Section 1250 gain” distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 25%, to the extent of previously claimed depreciation deductions.

Distributions from us in excess of our current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that they do not exceed the adjusted basis of the U.S. shareholder’s shares in respect of which the distributions were made. Rather, the distribution will reduce the adjusted basis of these shares. To the extent that such distributions exceed the adjusted basis of a U.S. shareholder’s shares of our shares, the U.S. shareholder generally must include such distributions in income as long-term capital gain, or short-term capital gain if the shares have been held for one year or less. In addition, any dividend that we declare in October, November or December of any year and that is payable to a shareholder of record on a specified date in any such month will be treated as both paid by us and received by the shareholder on December 31 of such year, *provided* that we actually pay the dividend before the end of January of the following calendar year.

To the extent that we have available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. See “-Taxation of our Company as a REIT” and “-Requirements for Qualification as a REIT-Annual Distribution Requirements.” Such losses, however, are not passed through to U.S. shareholders and do not offset income of U.S. shareholders from other sources, nor would such losses affect the character of any distributions that we make, which are generally subject to tax in the hands of U.S. shareholders to the extent that we have current or accumulated earnings and profits. Under amendments made by H.R. 1 to Section 172 of the Code, our deduction for any net operating loss carryforwards arising from losses we sustain in taxable years beginning after December 31, 2017 is limited to 80% of our REIT taxable income (determined without regard to the deduction for dividends paid), and any unused portion of losses arising in taxable years ending after December 31, 2017 may not be carried back, but may be carried forward indefinitely.

The maximum amount of dividends that we may designate as capital gain and as “qualified dividend income” (discussed below) with respect to any taxable year (effective for distributions in tax years beginning after December 31, 2014) may not exceed the dividends actually paid by us with respect to such year, including dividends paid by us in the succeeding tax year that relate back to the prior tax year for purposes of determining our dividends paid deduction.

Qualified Dividend Income. We may elect to designate a portion of our distributions paid to shareholders as “qualified dividend income.” A portion of a distribution that is properly designated as qualified dividend income is taxable to non-corporate U.S. shareholders as capital gain, provided that the shareholder has held the shares with respect to which the distribution is made for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which such shares become ex-dividend with respect to the relevant distribution. The maximum amount of our distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

- the qualified dividend income received by us during such taxable year from non-REIT corporations (including our taxable REIT subsidiaries);
- the excess of any “undistributed” “REIT taxable income” (computed without regard to the dividends paid deduction and its net capital gain or loss) recognized during the immediately preceding year over the U.S. federal income tax paid by us with respect to such undistributed “REIT taxable income” (computed without regard to the dividends paid deduction and its net capital gain or loss); and
- the excess of (i) any income recognized during the immediately preceding year attributable to the sale of a built-in-gain asset that was acquired in a carry-over basis transaction from a non-REIT “C” corporation with respect to which we are required to pay U.S. federal income tax, over (ii) the U.S. federal income tax paid by us with respect to such built-in gain.

Generally, dividends that we receive will be treated as qualified dividend income for purposes of the first bullet above if (A) the dividends are received from (i) a U.S. corporation (other than a REIT or a RIC), (ii) any of our taxable REIT subsidiaries, or (iii) a “qualifying foreign corporation,” and (B) specified holding period requirements and other requirements are met. A foreign corporation (other than a “foreign personal holding company,” a “foreign investment company,” or “passive foreign investment company”) will be a qualifying foreign corporation if it is incorporated in a possession of the United States, the corporation is eligible for benefits of an income tax treaty with the United States that the Secretary of Treasury determines is satisfactory, or the stock of the foreign corporation on which the dividend is paid is readily tradable on an established securities market in the United States. We generally expect that an insignificant portion, if any, of our distributions from us will consist of qualified dividend income. If we designate any portion of a dividend as qualified dividend income, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the shareholder as qualified dividend income.

Passive Activity Losses and Investment Interest Limitations. Distributions we make and gain arising from the sale or exchange by a U.S. shareholder of our shares will not be treated as passive activity income. As a result, U.S. shareholders generally will not be able to apply any “passive losses” against this income or gain. Distributions we make, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the investment interest limitation. A U.S. shareholder may elect, depending on its particular situation, to treat capital gain dividends, capital gains from the disposition of shares and income designated as qualified dividend income as investment income for purposes of the investment interest limitation, in which case the applicable capital gains will be taxed at ordinary income rates. We will notify shareholders regarding the portions of our distributions for each year that constitute ordinary income, return of capital and qualified dividend income.

Distributions to Holders of Depositary Shares. Owners of depositary shares will be treated for U.S. federal income tax purposes as if they were owners of the underlying preferred shares represented by such depositary shares. Accordingly, such owners will be entitled to take into account, for U.S. federal income tax purposes, income and deductions to which they would be entitled if they were direct holders of underlying preferred shares. In addition, (i) no gain or loss will be recognized for U.S. federal income tax

purposes upon the withdrawal of certificates evidencing the underlying preferred shares in exchange for depositary receipts, (ii) the tax basis of each share of the underlying preferred shares to an exchanging owner of depositary shares will, upon such exchange, be the same as the aggregate tax basis of the depositary shares exchanged therefor, and (iii) the holding period for the underlying preferred shares in the hands of an exchanging owner of depositary shares will include the period during which such person owned such depositary shares.

Dispositions of Our Shares. If a U.S. shareholder sells, redeems or otherwise disposes of its shares in a taxable transaction, it will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale or other disposition and the holder's adjusted basis in the shares for tax purposes. In general, a U.S. shareholder's adjusted basis will equal the U.S. shareholder's acquisition cost, increased by the excess for net capital gains deemed distributed to the U.S. shareholder (discussed above) less tax deemed paid on it and reduced by returns on capital.

In general, capital gains recognized by individuals and other non-corporate U.S. shareholders upon the sale or disposition of shares of our shares will be subject to a maximum U.S. federal income tax rate of 20% (excluding the 3.8% tax on "net investment income"), if our shares are held for more than one year, and will be taxed at ordinary income rates of up to 37% for taxable years beginning after December 31, 2017 and before January 1, 2026 if the stock is held for one year or less. Gains recognized by U.S. shareholders that are corporations are subject to U.S. federal income tax at a maximum rate of 21% effective for taxable years beginning after December 31, 2017, whether or not such gains are classified as long-term capital gains. The IRS has the authority to prescribe, but has not yet prescribed, Treasury regulations that would apply a capital gain tax rate of 25% (which is higher than the long-term capital gain tax rates for non-corporate U.S. shareholders) to a portion of capital gain realized by a non-corporate U.S. shareholder on the sale of our shares that would correspond to the REIT's "unrecaptured Section 1250 gain." U.S. shareholders should consult with their own tax advisors with respect to their capital gain tax liability.

Capital losses recognized by a U.S. shareholder upon the disposition of our shares that were held for more than one year at the time of disposition will be considered long-term capital losses, and are generally available only to offset capital gain income of the shareholder but not ordinary income (except in the case of individuals, who may offset up to \$3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of shares of our shares by a U.S. shareholder who has held the shares for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of distributions that we make that are required to be treated by the U.S. shareholder as long-term capital gain.

If a shareholder recognizes a loss upon a subsequent disposition of our shares in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury regulations involving "reportable transactions" could apply, with a resulting requirement to separately disclose the loss-generating transaction to the IRS. These regulations, though directed towards "tax shelters," are broadly written, and apply to transactions that would not typically be considered tax shelters. The Code imposes significant penalties for failure to comply with these requirements. U.S. shareholders should consult their tax advisors concerning any possible disclosure obligation with respect to the receipt or disposition of our shares, or transactions that we might undertake directly or indirectly.

Redemption of Preferred Shares and Depositary Shares. Whenever we redeem any preferred shares held by the depositary, the depositary will redeem as of the same redemption date the number of depositary shares representing the preferred shares so redeemed. The treatment accorded to any redemption by us for cash (as distinguished from a sale, exchange or other disposition) of our preferred shares to a holder of such preferred shares can only be determined on the basis of the particular facts as to each holder at the time of redemption. In general, a holder of our preferred shares will recognize capital gain or loss measured by the difference between the amount received by the holder of such shares upon the redemption and such holder's adjusted tax basis in the preferred shares redeemed (provided the preferred shares are held as a capital asset) if such redemption (i) is "not essentially equivalent to a dividend" with respect to the holder of the preferred shares under Section 302(b)(1) of the Code, (ii) is a "substantially disproportionate" redemption with respect to the shareholder under Section 302(b)(2) of the Code, or (iii) results in a "complete termination" of the holder's interest in all classes of our shares under Section 302(b)(3) of the Code. In applying these tests, there must be taken into account not only any series or class of the preferred shares being redeemed, but also such holder's ownership of other classes of our shares and any options (including stock purchase rights) to acquire any of the foregoing. The holder of our preferred shares also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Code.

If the holder of preferred shares owns (actually or constructively) none of our voting shares, or owns an insubstantial amount of our voting shares, based upon current law, it is probable that the redemption of preferred shares from such a holder would be considered to be "not essentially equivalent to a dividend." However, whether a distribution is "not essentially equivalent to a dividend" depends on all of the facts and circumstances, and a holder of our preferred shares intending to rely on any of these tests at the time of redemption should consult its tax advisor to determine their application to its particular situation.

Satisfaction of the “substantially disproportionate” and “complete termination” exceptions is dependent upon compliance with the respective objective tests set forth in Section 302(b)(2) and Section 302(b)(3) of the Code. A distribution to a holder of preferred shares will be “substantially disproportionate” if the percentage of our outstanding voting shares actually and constructively owned by the shareholder immediately following the redemption of preferred shares (treating preferred shares redeemed as not outstanding) is less than 80% of the percentage of our outstanding voting shares actually and constructively owned by the shareholder immediately before the redemption, and immediately following the redemption the shareholder actually and constructively owns less than 50% of the total combined voting power of the Company. Because our preferred shares are nonvoting shares, a shareholder would have to reduce such holder’s holdings (if any) in our classes of voting shares to satisfy this test.

If the redemption does not meet any of the tests under Section 302 of the Code, then the redemption proceeds received from our preferred shares will be treated as a distribution on our shares as described under “-Taxation of U.S. Shareholders-Taxation of Taxable U.S. Shareholders-Distributions Generally,” and “-Taxation of Non-U.S. Shareholders-Distributions Generally.” If the redemption of a holder’s preferred shares is taxed as a dividend, the adjusted basis of such holder’s redeemed preferred shares will be transferred to any other shares held by the holder. If the holder owns no other shares, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

With respect to a redemption of our preferred shares that is treated as a distribution with respect to our shares, which is not otherwise taxable as a dividend, the IRS has proposed Treasury regulations that would require any basis reduction associated with such a redemption to be applied on a share-by-share basis which could result in taxable gain with respect to some shares, even though the holder’s aggregate basis for the shares would be sufficient to absorb the entire amount of the redemption distribution (in excess of any amount of such distribution treated as a dividend). Additionally, these proposed Treasury regulations would not permit the transfer of basis in the redeemed shares of the preferred shares to the remaining shares held (directly or indirectly) by the redeemed holder. Instead, the unrecovered basis in our preferred shares would be treated as a deferred loss to be recognized when certain conditions are satisfied. These proposed Treasury regulations would be effective for transactions that occur after the date the regulations are published as final Treasury regulations. There can, however, be no assurance as to whether, when, and in what particular form such proposed Treasury regulations will ultimately be finalized.

Net Investment Income Tax. In certain circumstances, certain U.S. shareholders that are individuals, estates or trusts are subject to a 3.8% tax on “net investment income,” which includes, among other things, dividends on and gains from the sale or other disposition of REIT shares. U.S. shareholders should consult their own tax advisors regarding this legislation.

Taxation of Tax Exempt Shareholders

U.S. tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. Such entities, however, may be subject to taxation on their unrelated business taxable income, or UBTI. While some investments in real estate may generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity generally do not constitute UBTI. Based on that ruling, and provided that (1) a tax-exempt shareholder has not held our shares as “debt financed property” within the meaning of the Code (i.e., where the acquisition or holding of our shares is financed through a borrowing by the U.S. tax-exempt shareholder), (2) our shares are not otherwise used in an unrelated trade or business of a U.S. tax-exempt shareholder, and (3) we do not hold an asset that gives rise to “excess inclusion income,” distributions that we make and income from the sale of our shares generally should not give rise to UBTI to a U.S. tax-exempt shareholder.

Tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, or qualified group legal services plans exempt from U.S. federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) or (c)(20) of the Code, respectively, or single parent title-holding corporations exempt under Section 501(c)(2) and whose income is payable to any of the aforementioned tax-exempt organizations, are subject to different UBTI rules, which generally require such shareholders to characterize distributions from us as UBTI unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in our shares. These shareholders should consult with their tax advisors concerning these set aside and reserve requirements.

In certain circumstances, a pension trust (1) that is described in Section 401(a) of the Code, (2) is tax exempt under Section 501(a) of the Code, and (3) that owns more than 10% of the value of our shares could be required to treat a percentage of the dividends as UBTI, if we are a “pension-held REIT.” We will not be a pension-held REIT unless:

- either (1) one pension trust owns more than 25% of the value of our stock, or (2) one or more pension trusts, each individually holding more than 10% of the value of our shares, collectively own more than 50% of the value of our shares; and

- we would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code provides that shares owned by such trusts shall be treated, for purposes of the requirement that not more than 50% of the value of the outstanding shares of a REIT is owned, directly or indirectly, by five or fewer “individuals” (as defined in the Code to include certain entities), as owned by the beneficiaries of such trusts.

The percentage of any REIT dividend from a “pension-held REIT” that is treated as UBTI is equal to the ratio of the UBTI earned by the REIT, treating the REIT as if it were a pension trust and therefore subject to tax on UBTI, to the total gross income of the REIT. An exception applies where the percentage is less than 5% for any year, in which case none of the dividends would be treated as UBTI. The provisions requiring pension trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the “not closely held requirement” without relying upon the “look-through” exception with respect to pension trusts. As a result of certain limitations on the transfer and ownership of our common and preferred shares contained in our declaration of trust, we do not expect to be classified as a “pension-held REIT,” and accordingly, the tax treatment described above with respect to pension-held REITs should be inapplicable to our tax-exempt shareholders.

Taxation of Non-U.S. Shareholders

The following discussion addresses the rules governing U.S. federal income taxation of non-U.S. shareholders. For purposes of this summary, “non-U.S. shareholder” is a beneficial owner of our shares that is not a U.S. shareholder (as defined above under “-Taxation of U.S. Shareholders-Taxation of Taxable U.S. Shareholders”) or an entity that is treated as a partnership for U.S. federal income tax purposes. These rules are complex, and no attempt is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of U.S. federal income taxation and does not address state local or foreign tax consequences that may be relevant to a non-U.S. shareholder in light of its particular circumstances. Prospective non-U.S. shareholders are urged to consult their tax advisors to determine the impact of U.S. federal, state, local and foreign income tax laws on their ownership of our common shares or preferred shares, including any reporting requirements.

Distributions Generally. As described in the discussion below, distributions paid by us with respect to our common shares, preferred shares and depositary shares will be treated for U.S. federal income tax purposes as either:

- ordinary income dividends;
- long-term capital gain; or
- return of capital distributions.
- This discussion assumes that our shares will continue to be considered regularly traded on an established securities market for purposes of the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, provisions described below. If our shares are no longer regularly traded on an established securities market, the tax considerations described below would materially differ.

Ordinary Income Dividends. A distribution paid by us to a non-U.S. shareholder will be treated as an ordinary income dividend if the distribution is payable out of our earnings and profits and:

- not attributable to our net capital gain; or
- the distribution is attributable to our net capital gain from the sale of U.S. Real Property Interests, or “USRPIs,” and the non-U.S. shareholder owns 10% or less of the value of our common shares at all times during the one-year period ending on the date of the distribution.

In general, non-U.S. shareholders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our shares. In cases where the dividend income from a non-U.S. shareholder’s investment in our shares is, or is treated as, effectively connected with the non-U.S. shareholder’s conduct of a U.S. trade or business, the non-U.S. shareholder generally will be subject to U.S. federal income tax at graduated rates, in the same manner as U.S. shareholders are taxed with respect to such dividends. Such income must generally be reported on a U.S. income tax return filed by or on behalf of the non-U.S. shareholder. The income may also be subject to the 30% branch profits tax in the case of a non-U.S. shareholder that is a corporation.

Generally, we will withhold and remit to the IRS 30% (or lower applicable treaty rate) of dividend distributions (including distributions that may later be determined to have been made in excess of current and accumulated earnings and profits) that could not be treated as capital gain distributions with respect to the non-U.S. shareholder (and that are not deemed to be capital gain dividends for purposes of the FIRPTA withholding rules described below) unless:

- a lower treaty rate applies and the non-U.S. shareholder files an IRS Form W-8BEN or Form W-8BEN-E, as applicable, evidencing eligibility for that reduced treaty rate with us; or
- the non-U.S. shareholder files an IRS Form W-8ECI with us claiming that the distribution is income effectively connected with the non-U.S. shareholder's trade or business; or
- the non-U.S. shareholder is a foreign sovereign or controlled entity of a foreign sovereign and also provides an IRS Form W-8EXP claiming an exemption from withholding under section 892 of the Code.

Return of Capital Distributions. Unless (A) our shares constitute a USRPI, as described in “-Dispositions of Our Shares” below, or (B) either (1) the non-U.S. shareholder's investment in our shares is effectively connected with a U.S. trade or business conducted by such non-U.S. shareholder (in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain) or (2) the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a “tax home” in the United States (in which case the non-U.S. shareholder will be subject to a 30% tax on the individual's net capital gain for the year), distributions that we make which are not dividends out of our earnings and profits will not be subject to U.S. federal income tax. If we cannot determine at the time a distribution is made whether or not the distribution will exceed current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to dividends. The non-U.S. shareholder may seek a refund from the IRS of any amounts withheld if it subsequently is determined that the distribution was, in fact, in excess of our current and accumulated earnings and profits. If our shares constitute a USRPI, as described below, distributions that we make in excess of the sum of (1) the non-U.S. shareholder's proportionate share of our earnings and profits, and (2) the non-U.S. shareholder's basis in its shares, will be taxed under FIRPTA at the rate of tax, including any applicable capital gains rates, that would apply to a U.S. shareholder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding tax at a rate of 15% of the amount by which the distribution exceeds the non-U.S. shareholder's share of our earnings and profits.

Capital Gain Dividends. A distribution paid by us to a non-U.S. shareholder will be treated as long-term capital gain if the distribution is paid out of our current or accumulated earnings and profits and:

- the distribution is attributable to our net capital gain (other than from the sale of USRPIs) and we timely designate the distribution as a capital gain dividend; or
- the distribution is attributable to our net capital gain from the sale of USRPIs and the non-U.S. common shareholder owns more than 10% of the value of common shares at any point during the one-year period ending on the date on which the distribution is paid.

Long-term capital gain that a non-U.S. shareholder is deemed to receive from a capital gain dividend that is not attributable to the sale of USRPIs generally will not be subject to U.S. federal income tax in the hands of the non-U.S. shareholder unless:

- the non-U.S. shareholder's investment in our shares is effectively connected with a U.S. trade or business of the non-U.S. shareholder, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to any gain, except that a non-U.S. shareholder that is a corporation also may be subject to the 30% (or lower applicable treaty rate) branch profits tax; or
- the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a “tax home” in the United States in which case the nonresident alien individual will be subject to a 30% tax on his capital gains.

Under FIRPTA, distributions that are attributable to net capital gain from the sale by us of USRPIs and paid to a non-U.S. shareholder that owns more than 10% of the value of our shares at any time during the one-year period ending on the date on which the distribution is paid will be subject to U.S. tax as income effectively connected with a U.S. trade or business. The FIRPTA tax will apply to these distributions whether or not the distribution is designated as a capital gain dividend, and, in the case of a non-U.S. shareholder that is a corporation, such distributions also may be subject to the 30% (or lower applicable treaty rate) branch profits tax.

Any distribution paid by us that is treated as a capital gain dividend or that could be treated as a capital gain dividend with respect to a particular non-U.S. shareholder will be subject to special withholding rules under FIRPTA. We will withhold and remit to the IRS 21% (effective for taxable years beginning after December 31, 2017) (or, to the extent provided in Treasury Regulations, 20%) of any distribution that could be treated as a capital gain dividend with respect to the non-U.S. shareholder, whether or not the distribution is attributable to the sale by us of USRPIs. The amount withheld is creditable against the non-U.S. shareholder's U.S. federal income tax liability or refundable when the non-U.S. shareholder properly and timely files a tax return with the IRS. In addition, distributions to certain non-U.S. publicly traded shareholders that meet certain record-keeping and other requirements

(“qualified shareholders”) are exempt from FIRPTA, except to the extent owners of such qualified shareholders that are not also qualified shareholders own, actually or constructively, more than 10% of our capital stock. Furthermore, distributions to “qualified foreign pension funds” (as defined in the Code) or entities all of the interests of which are held by “qualified foreign pension funds” are exempt from FIRPTA. Non-U.S. stockholders should consult their tax advisors regarding the application of these rules.

Undistributed Capital Gain. Although the law is not entirely clear on the matter, it appears that amounts designated by us as undistributed capital gains in respect of our shares held by non-U.S. shareholders generally should be treated in the same manner as actual distributions by us of capital gain dividends. Under this approach, the non-U.S. shareholder would be able to offset as a credit against their U.S. federal income tax liability resulting therefrom their proportionate share of the tax paid by us on the undistributed capital gains treated as long-term capital gains to the non-U.S. shareholder, and generally receive from the IRS a refund to the extent their proportionate share of the tax paid by us were to exceed the non-U.S. shareholder’s actual U.S. federal income tax liability on such long-term capital gain. If we were to designate any portion of our net capital gain as undistributed capital gain, a non-U.S. shareholder should consult its tax advisors regarding taxation of such undistributed capital gain.

Dispositions of Our Shares. Unless our shares constitute a USRPI, a sale of our shares by a non-U.S. shareholder generally will not be subject to U.S. federal income taxation under FIRPTA. Generally, subject to the discussion below regarding dispositions by “qualified shareholders” and “qualified foreign pensions funds,” with respect to any particular shareholder, our shares will constitute a USRPI only if each of the following three statements is true:

- Fifty percent or more of our assets on any of certain testing dates during a prescribed testing period consist of interests in real property located within the United States, excluding for this purpose, interests in real property solely in a capacity as creditor;
- We are not a “domestically-controlled qualified investment entity.” A domestically-controlled qualified investment entity includes a REIT, less than 50% of value of which is held directly or indirectly by non-U.S. shareholders at all times during a specified testing period. Although we believe that we are and will remain a domestically-controlled REIT, because our shares are publicly traded, we cannot guarantee that we are or will remain a domestically-controlled qualified investment entity; and
- Either (a) our shares are not “regularly traded,” as defined by applicable Treasury regulations, on an established securities market; or (b) our shares are “regularly traded” on an established securities market and the selling non-U.S. shareholder has held over 10% of our outstanding common shares any time during the five-year period ending on the date of the sale.

In addition, dispositions of our capital stock by qualified shareholders are exempt from FIRPTA, except to the extent owners of such qualified shareholders that are not also qualified shareholders own, actually or constructively, more than 10% of our capital stock. An actual or deemed disposition of our capital stock by such shareholders may also be treated as a dividend. Furthermore, dispositions of our capital stock by “qualified foreign pension funds” or entities all of the interests of which are held by “qualified foreign pension funds” are exempt from FIRPTA. Non-U.S. stockholders should consult their tax advisors regarding the application of these rules.

Specific wash sales rules applicable to sales of shares in a domestically-controlled qualified investment entity could result in gain recognition, taxable under FIRPTA, upon the sale of our shares even if we are a domestically-controlled qualified investment entity. These rules would apply if a non-U.S. shareholder (1) disposes of our shares within a 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been taxable to such non-U.S. shareholder as gain from the sale or exchange of a USRPI, and (2) acquires, or enters into a contract or option to acquire, other shares of our shares during the 61-day period that begins 30 days prior to such ex-dividend date, and (3) if our shares are “regularly traded” on an established securities market in the United State, such non-US stockholder has owned more than 10% of our outstanding shares at any time during the one-year period ending on the date of such distribution.

If gain on the sale of our shares were subject to taxation under FIRPTA, the non-U.S. shareholder would be required to file a U.S. federal income tax return and would be subject to the same treatment as a U.S. shareholder with respect to such gain, subject to the applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals, and, if our common shares were not “regularly traded” on an established securities market, the purchaser of the shares generally would be required to withhold 15% of the purchase price and remit such amount to the IRS.

Gain from the sale of our shares that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S. shareholder as follows: (1) if the non-U.S. shareholder’s investment in our shares is effectively connected with a U.S. trade or business conducted by such non-U.S. shareholder, the non-U.S. shareholder will be subject to the same treatment as a U.S. shareholder with respect to such gain, or (2) if the non-U.S. shareholder is a nonresident alien individual who was present in the

U.S. for 183 days or more during the taxable year and has a “tax home” in the United States, the nonresident alien individual will be subject to a 30% tax on the individual’s capital gain.

Taxation of Holders of Our Warrants and Rights

Warrants. Holders of our warrants will not generally recognize gain or loss upon the exercise of a warrant. A holder’s basis in the preferred shares, depositary shares representing preferred shares or common shares, as the case may be, received upon the exercise of the warrant will be equal to the sum of the holder’s adjusted tax basis in the warrant and the exercise price paid. A holder’s holding period in the preferred shares, depositary shares representing preferred shares or common shares, as the case may be, received upon the exercise of the warrant will not include the period during which the warrant was held by the holder. Upon the expiration of a warrant, the holder will recognize a capital loss in an amount equal to the holder’s adjusted tax basis in the warrant. Upon the sale or exchange of a warrant to a person other than us, a holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the holder’s adjusted tax basis in the warrant. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the warrant was held for more than one year. Upon the sale of the warrant to us, the IRS may argue that the holder should recognize ordinary income on the sale. Prospective holders of our warrants should consult their own tax advisors as to the consequences of a sale of a warrant to us.

Rights. In the event of a rights offering, the tax consequences of the receipt, expiration, and exercise of the rights we issue will be addressed in detail in a prospectus supplement. Prospective holders of our rights should review the applicable prospectus supplement in connection with the ownership of any rights, and consult their own tax advisors as to the consequences of investing in the rights.

Dividend Reinvestment and Share Purchase Plan

General

We plan to offer shareholders, prospective shareholders and unit holders the opportunity to participate in our Dividend Reinvestment and Share Purchase Plan, which is referred to herein as the “DRIP.” Although we do not currently plan to offer any discount in connection with the DRIP, we reserve the right to offer a discount on shares purchased with reinvested dividends or cash distributions and shares purchased through the optional cash investment feature.

Amounts Treated as a Distribution

Generally, a DRIP participant will be treated as having received a distribution with respect to our shares for U.S. federal income tax purposes in an amount determined as described below.

- A shareholder who participates in the dividend reinvestment feature of the DRIP and whose dividends are reinvested in our shares purchased from us will be treated for U.S. federal income tax purposes as having received a distribution from us with respect to our shares equal to the fair market value of our shares credited to the shareholder’s DRIP account on the date the dividends are reinvested. The amount of the distribution deemed received (and that will be reported on the Form 1099-DIV received by the shareholder) may exceed the amount of the cash dividend that was reinvested, due to a discount being offered on the purchase price of the shares purchased.
- A shareholder who participates in the dividend reinvestment feature of the DRIP and whose dividends are reinvested in our shares purchased in the open market, will be treated for U.S. federal income tax purposes as having received (and will receive a Form 1099-DIV reporting) a distribution from us with respect to its shares equal to the fair market value of our shares credited to the shareholder’s DRIP account (plus any brokerage fees and any other expenses deducted from the amount of the distribution reinvested) on the date the dividends are reinvested. If we offer a discount on our shares purchased on the open market in the future, the amount of the distribution the shareholder will be treated as receiving (and that will be reported on the Form 1099-DIV received by the shareholder) may exceed the cash distribution reinvested as a result of any such discount.
- A shareholder who participates in both the dividend reinvestment and the cash investment features of the DRIP and who purchases our shares through the cash investment feature of the DRIP will be treated for U.S. federal income tax purposes as having received a distribution from us with respect to its shares equal to the fair market value of our shares credited to the shareholder’s DRIP account on the date the shares are purchased less the amount paid by the shareholder for our shares (plus any brokerage fees and any other expenses paid by the shareholder).
- A shareholder who participates in the optional cash purchase through the DRIP will not be treated as receiving a distribution from us if no discount is offered.

- Newly enrolled participants who are making their initial investment in our common shares through the DRIP's optional cash purchase feature and therefore are not currently our shareholders should not be treated as receiving a distribution from us, even if a discount is offered.
- Although the tax treatment with respect to a shareholder who participates only in the cash investment feature of the DRIP and does not participate in the dividend reinvestment feature of the DRIP is not entirely clear, we will report any discount offered as a distribution to that shareholder on Form 1099-DIV. Shareholders are urged to consult with their tax advisor regarding the tax treatment to them of receiving a discount on cash investments in our shares made through the DRIP.

In the situations described above, a shareholder will be treated as receiving a distribution from us even though no cash distribution is actually received. These distributions will be taxable in the same manner as all other distributions paid by us, as described above under “-Taxation of U.S. Shareholders-Taxation of Taxable U.S. Shareholders,” “-Taxation of U.S. Shareholders-Taxation of Tax-Exempt Shareholders,” or “-Taxation of Non-U.S. Shareholders,” as applicable.

Basis and Holding Period in Shares Acquired Pursuant to the DRIP. The tax basis for our shares acquired by reinvesting cash distributions through the DRIP generally will equal the fair market value of our shares on the date of distribution (plus the amount of any brokerage fees paid by the shareholder). Accordingly, if we offer a discount on the purchase price of our shares purchased with reinvested cash distributions, the tax basis in our shares would include the amount of any discount. The holding period for our shares acquired by reinvesting cash distributions will begin on the day following the date of distribution.

The tax basis in our shares acquired through an optional cash investment generally will equal the cost paid by the participant in acquiring our shares, including any brokerage fees paid by the shareholder. If we offer a discount on the purchase price of our shares purchased by making an optional cash investment, then the tax basis in those shares also would include any amounts taxed as a dividend. The holding period for our shares purchased through the optional cash investment feature of the DRIP generally will begin on the day our shares are purchased for the participant's account.

Withdrawal of Shares from the DRIP. When a participant withdraws stock from the DRIP and receives whole shares, the participant will not realize any taxable income. However, if the participant receives cash for a fractional share, the participant will be required to recognize gain or loss with respect to that fractional share.

Effect of Withholding Requirements. Withholding requirements generally applicable to distributions from us will apply to all amounts treated as distributions pursuant to the DRIP. See “-Information Reporting and Backup Withholding Tax Applicable to Shareholders-U.S. Shareholders-Generally” and “-Information Reporting and Backup Withholding Tax Applicable to Shareholders-Non-U.S. Shareholders-Generally” for discussion of the withholding requirements that apply to other distributions that we pay. All withholding amounts will be withheld from distributions before the distributions are reinvested under the DRIP. Therefore, if a U.S. shareholder is subject to withholding, distributions which would otherwise be available for reinvestment under the DRIP will be reduced by the withholding amount.

Information Reporting and Backup Withholding Tax Applicable to Shareholders

U.S. Shareholders - Generally

In general, information-reporting requirements will apply to payments of distributions on our shares and payments of the proceeds of the sale of our shares to some U.S. shareholders, unless an exception applies. Further, the payer will be required to withhold backup withholding tax on such payments at the rate of 28% if:

- (1) the payee fails to furnish a taxpayer identification number, or TIN, to the payer or to establish an exemption from backup withholding;
- (2) the IRS notifies the payer that the TIN furnished by the payee is incorrect;
- (3) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Code; or
- (4) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Code.

Some shareholders may be exempt from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a shareholder will be allowed as a credit against the shareholder's U.S. federal income tax liability and may entitle the shareholder to a refund, provided that the required information is furnished to the IRS.

U.S. Shareholders - Withholding on Payments in Respect of Certain Foreign Accounts.

As described below, certain future payments made to "foreign financial institutions" and "non-financial foreign entities" may be subject to withholding at a rate of 30%. U.S. shareholders should consult their tax advisors regarding the effect, if any, of this withholding provision on their ownership and disposition of our common stock. See "- Non-U.S. Shareholders - Withholding on Payments to Certain Foreign Entities" below.

Non-U.S. Shareholders - Generally

Generally, information reporting will apply to payments or distributions on our shares, and backup withholding described above for a U.S. shareholder will apply, unless the payee certifies that it is not a U.S. person or otherwise establishes an exemption. The payment of the proceeds from the disposition of our shares to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and, possibly, backup withholding as described above for U.S. shareholders, or the withholding tax for non-U.S. shareholders, as applicable, unless the non-U.S. shareholder certifies as to its non-U.S. status or otherwise establishes an exemption, provided that the broker does not have actual knowledge that the shareholder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The proceeds of the disposition by a non-U.S. shareholder of our shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. federal income tax purposes, or a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership 50% or more of whose interests are held by partners who are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the United States, then information reporting generally will apply as though the payment was made through a U.S. office of a U.S. or foreign broker unless the broker has documentary evidence as to the non-U.S. shareholder's foreign status and has no actual knowledge to the contrary.

Applicable Treasury regulations provide presumptions regarding the status of shareholders when payments to the shareholders cannot be reliably associated with appropriate documentation provided to the payor. If a non-U.S. shareholder fails to comply with the information reporting requirement, payments to such person may be subject to the full withholding tax even if such person might have been eligible for a reduced rate of withholding or no withholding under an applicable income tax treaty. Because the application of these Treasury regulations varies depending on the non-U.S. shareholder's particular circumstances, non-U.S. shareholders are urged to consult their tax advisor regarding the information reporting requirements applicable to them.

Backup withholding is not an additional tax. Any amounts that we withhold under the backup withholding rules will be refunded or credited against the non-U.S. shareholder's U.S. federal income tax liability if certain required information is furnished to the IRS. Non-U.S. shareholders should consult their own tax advisors regarding application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury regulations.

Non-U.S. Shareholders - Withholding on Payments to Certain Foreign Entities

The Foreign Account Tax Compliance Act ("FATCA") imposes a 30% withholding tax on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligations requirements are satisfied.

The Treasury Department and the IRS have issued final regulations under FATCA. As a general matter, FATCA imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, our shares if paid to a foreign entity unless either (i) the foreign entity is a "foreign financial institution" that undertakes certain due diligence, reporting, withholding, and certification obligations, or in the case of a foreign financial institution that is a resident in a jurisdiction that has entered into an intergovernmental agreement to implement FATCA, the entity complies with the diligence and reporting requirements of such agreement, (ii) the foreign entity is not a "foreign financial institution" and identifies certain of its U.S. investors, or (iii) the foreign entity otherwise is exempted under FATCA. Under delayed effective dates provided for in the regulations, the required withholding will not begin until January 1, 2019 with respect to gross proceeds from a sale or other disposition of our shares.

If withholding is required under FATCA on a payment related to our shares, investors that otherwise would not be subject to withholding (or that otherwise would be entitled to a reduced rate of withholding) generally will be required to seek a refund or

credit from the IRS to obtain the benefit of such exemption or reduction (provided that such benefit is available). Prospective investors should consult their tax advisors regarding the effect of FATCA in their particular circumstances.

Taxation of Holders of Debt Securities Issued by our Operating Partnership

The following discussion summarizes certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of debt securities issued by our Operating Partnership. This summary assumes the debt securities will be issued with no more than a *de minimis* amount of original issue discount for U.S. federal income tax purposes. This summary only applies to investors that will hold their debt securities as “capital assets” (within the meaning of Section 1221 of the Code) and purchase their debt securities in the initial offering at their issue price. If such debt securities are purchased at a price other than the offering price, the amortizable bond premium or market discount rules may apply which are not described herein. Prospective holders should consult their own tax advisors regarding these possibilities. This section also does not apply to any debt securities treated as “equity,” rather than debt, for U.S. federal income tax purposes.

The tax consequences of owning any notes issued with more than *de minimis* original issue discount, floating rate debt securities, convertible or exchangeable notes, indexed notes or other debt securities not covered by this discussion that we offer will be discussed in the applicable prospectus supplement.

U.S. Holders of Debt Securities

This section summarizes the taxation of U.S. Holders of debt securities that are not tax-exempt organizations. For these purposes, the term “U.S. Holder” is a beneficial owner of our debt securities that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of a political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- any trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) it has a valid election in place to be treated as a U.S. person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our debt securities, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our debt securities should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of our debt securities by the partnership.

Payments of Interest. Interest on a note will generally be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, in accordance with the U.S. Holder’s regular method of tax accounting for U.S. federal income tax purposes. If the notes are issued at a *de minimis* discount from their stated principal amount, while such *de minimis* discount does not result in the notes being issued with original issue discount for U.S. federal income tax purposes, under recently enacted legislation, for taxable years beginning on or after January 1, 2019, U.S. Holders that maintain certain types of financial statements and that are subject to the accrual method of tax accounting will be required to include such *de minimis* discount in income no later than the time upon which they include such amounts in income on their financial statements. Accordingly, a U.S. Holder of the notes that maintains such financial statements may be required to include any *de minimis* discount on the notes in income prior to the maturity of the notes. U.S. Holders that maintain financial statements should consult their own tax advisors regarding the tax consequences to them of this legislation.

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of the Debt Securities. Upon a sale, exchange, retirement, redemption or other taxable disposition of debt securities, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference, if any, between the “amount realized” on the disposition and the U.S. Holder’s adjusted tax basis in such debt securities. The amount realized will include the amount of any cash and the fair market value of any property received for the debt securities (other than any amount attributable to accrued but unpaid interest, which will be taxable as ordinary income (as described above under “-Taxation of Holders of Debt Securities Issued by our Operating Partnership-U.S. Holders of Debt Securities-Payments of Interest”) to the extent not previously included in income). A U.S. Holder’s adjusted tax basis in a note generally will be equal to the cost of the note to such U.S. Holder decreased by any payments received on the note other than stated interest. Any such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder’s holding period for the note is more than one year at the time of disposition. For noncorporate U.S. Holders, long-term capital gain

generally will be subject to reduced rates of taxation. The deductibility of capital losses against ordinary income is subject to certain limitations. *Information Reporting and Backup Withholding.* Payments of interest on, or the proceeds of the sale, exchange or other taxable disposition (including a retirement or redemption) of, a note are generally subject to information reporting unless the U.S. Holder is an exempt recipient (such as a corporation). Such payments may also be subject to U.S. federal backup withholding unless (1) the U.S. Holder is an exempt recipient (such as a corporation), or (2) prior to payment, the U.S. Holder provides a taxpayer identification number and certifies as required on a duly completed and executed IRS Form W-9 (or permitted substitute or successor form), and otherwise complies with the requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against that U.S. Holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Net Investment Income. In certain circumstances, certain U.S. Holders that are individuals, estates, or trusts are subject to a 3.8% tax on "net investment income, which includes, among other things, interest income and net gains from the sale, exchange or other taxable disposition (including a retirement or redemption) of the debt securities, unless such interest payments or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive activities or securities or commodities trading activities). Investors in debt securities should consult their own tax advisors regarding the applicability of this tax to their income and gain in respect of their investment in the debt securities.

Tax-Exempt Holders of Debt Securities

In general, a tax-exempt organization is exempt from U.S. federal income tax on its income, except to the extent of its UBTI (as defined above under "-Taxation of U.S. Shareholders-Taxation of U.S. Tax-Exempt Shareholders"). Interest income accrued on the debt securities and gain recognized in connection with dispositions of the debt securities generally will not constitute UBTI unless the tax-exempt organization holds the debt securities as debt-financed property (e.g., the tax-exempt organization has incurred "acquisition indebtedness" with respect to such note). Before making an investment in the debt securities, a tax-exempt investor should consult its tax advisors with regard to UBTI and the suitability of the investment in the debt securities.

Non-U.S. Holders of Debt Securities

The following discussion addresses the rules governing U.S. federal income taxation of Non-U.S. Holders of debt securities. For purposes of this summary, "Non-U.S. Holder" is a beneficial owner of our debt securities that is not (i) a U.S. Holder (as defined above under "-U.S. Holders of Debt Securities") or (ii) an entity treated as a partnership for U.S. federal income tax purposes.

Payments of Interest. Subject to the discussions below concerning backup withholding and FATCA (as defined below), all payments of interest on the debt securities made to a Non-U.S. Holder will not be subject to U.S. federal income or withholding taxes under the "portfolio interest" exception of the Code, provided that:

- interest on the note is not effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (or, if provided by an applicable income tax treaty, is not attributable to a United States permanent establishment),
- the Non-U.S. Holder does not own, actually or constructively, 10% or more of the capital or profits interest in the Operating Partnership,
- the Non-U.S. Holder is not a controlled foreign corporation with respect to which the Operating Partnership is a "related person" (within the meaning of Section 864(d)(4) of the Code),
- the Non-U.S. Holder is not a bank whose receipt of interest on a note is described in Section 881(c)(3)(A) of the Code, and
- either (1) the Non-U.S. Holder provides its name and address on an IRS Form W-8BEN or IRS Form W-8BEN-E (or other applicable form) and certifies, under penalties of perjury, that it is not a U.S. Holder, or (2) the non-U.S. Holder holds its notes through certain foreign intermediaries and satisfies the certification requirements of applicable United States Treasury regulations. Special certification rules apply to non-U.S. Holders that are pass-through entities rather than corporations or individuals.

The applicable Treasury Regulations provide alternative methods for satisfying the certification requirement described above. In addition, under these Treasury Regulations, special rules apply to pass-through entities and this certification requirement may also apply to beneficial owners of pass-through entities. If a Non-U.S. Holder cannot satisfy the requirements described above, payments of interest will generally be subject to the 30% U.S. federal withholding tax, unless the Non-U.S. Holder provides the applicable withholding agent with a properly executed (1) IRS Form W-8BEN or IRS Form W-8BEN-E (or other applicable form)

claiming an exemption from or reduction in withholding under an applicable income tax treaty or (2) IRS Form W-8ECI (or other applicable form) stating that interest paid on the debt securities is not subject to U.S. federal withholding tax because it is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (as discussed below under “-Non-U.S. Holders of Debt Securities-Income Effectively Connected with a U.S. Trade or Business”).

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of the Debt Securities. Subject to the discussions below concerning backup withholding and FATCA and except with respect to accrued but unpaid interest, which generally will be taxable as interest and may be subject to the rules described above under “-Non-U.S. Holders of Debt Securities-Payments of Interest,” a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on the receipt of payments of principal on a note, or on any gain recognized upon the sale, exchange, retirement, redemption or other taxable disposition of a note, unless:

- such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States, in which case such gain will be taxed as described below under “-Non-U.S. Holders of Debt Securities-Income Effectively Connected with a U.S. Trade or Business,” or
- such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met, in which case such Non-U.S. Holder will be subject to tax at 30% (or, if applicable, a lower treaty rate) on the gain derived from such disposition, which may be offset by U.S. source capital losses.

Income Effectively Connected with a U.S. Trade or Business. If a Non-U.S. Holder is engaged in a trade or business in the United States, and if interest on the debt securities or gain realized on the sale, exchange or other taxable disposition (including a retirement or redemption) of the debt securities is effectively connected with the conduct of such trade or business, the Non-U.S. Holder generally will be subject to regular U.S. federal income tax on such income or gain in the same manner as if the Non-U.S. Holder were a U.S. Holder. If the Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and the Non-U.S. Holder’s country of residence, any “effectively connected” income or gain generally will be subject to U.S. federal income tax only if it is also attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States. In addition, if such a Non-U.S. Holder is a foreign corporation, such holder may also be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable income tax treaty) of its effectively connected earnings and profits, subject to certain adjustments. Payments of interest that are effectively connected with a U.S. trade or business will not be subject to the 30% U.S. federal withholding tax provided that the Non-U.S. Holder claims exemption from withholding. To claim exemption from withholding, the Non-U.S. Holder must certify its qualification, which generally can be done by filing a properly executed IRS Form W-8ECI (or other applicable form).

Information Reporting and Backup Withholding. Generally, we must report annually to the IRS and to Non-U.S. Holders the amount of interest paid to Non-U.S. Holders and the amount of tax, if any, withheld with respect to those payments. Copies of these information returns reporting such interest and withholding may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides. In general, a Non-U.S. Holder will not be subject to backup withholding or additional information reporting requirements with respect to payments of interest that we make, provided that the statement described above in last bullet point under “-Non-U.S. Holders of Debt Securities-Interest” has been received and we do not have actual knowledge or reason to know that the holder is a U.S. person, as defined under the Code, that is not an exempt recipient. In addition, proceeds from a sale or other disposition of a note by a Non-U.S. Holder generally will be subject to information reporting and, depending on the circumstances, backup withholding with respect to payments of the proceeds of the sale or disposition (including a retirement or redemption) of a note within the United States or conducted through certain U.S. or U.S.-related financial intermediaries, unless the statement described above has been received and we do not have actual knowledge or reason to know that the holder is a U.S. person. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a non-U.S. holder’s U.S. federal income tax liability if the required information is furnished in a timely manner to the IRS.

Additional Withholding Requirements. As discussed above under “-Information Reporting and Backup Withholding Tax Applicable to Shareholders-Non-U.S. Shareholders-Withholding on Payments to Certain Foreign Entities,” FATCA imposes a 30% withholding tax on certain types of payments made to “foreign financial institutions” and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligations requirements are satisfied.

As a general matter, payments to Non-U.S. Holders that are foreign entities (whether as beneficial owner or intermediary) of interest on, and the gross proceeds from the sale or other disposition of, a debt obligation of a U.S. issuer will be subject to a withholding tax (separate and apart from, but without duplication of, the withholding tax described above) at a rate of 30%, unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or

accounts with those entities) have been satisfied. Treasury Regulations and subsequent guidance under FATCA delay application of the withholding tax on gross proceeds until amounts paid on or after January 1, 2019.

If withholding is required under FATCA on a payment related to the debt securities, Non-U.S. Holders that otherwise would not be subject to withholding (or that otherwise would be entitled to a reduced rate of withholding) generally will be required to seek a refund or credit from the IRS to obtain the benefit of such exemption or reduction (provided that such benefit is available). Prospective investors should consult their tax advisors regarding the effect of FATCA in their particular circumstances.

Other Tax Considerations

State, Local and Foreign Taxes

We may be required to pay tax in various state or local jurisdictions, including those in which we transact business, and our shareholders may be required to pay tax in various state or local jurisdictions, including those in which they reside. Our state and local tax treatment may not conform to the U.S. federal income tax consequences discussed above. In addition, a shareholder's state and local tax treatment may not conform to the U.S. federal income tax consequences discussed above. Consequently, prospective investors should consult with their tax advisors regarding the effect of state and local tax laws on an investment in our shares and depositary shares.

A portion of our income is earned through our taxable REIT subsidiaries. The taxable REIT subsidiaries are subject to U.S. federal, state and local income tax at the full applicable corporate rates. In addition, a taxable REIT subsidiary will be limited in its ability to deduct interest payments in excess of a certain amount made directly or indirectly to us. To the extent that our taxable REIT subsidiaries and we are required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to shareholders.

Tax Shelter Reporting

If a holder recognizes a loss as a result of a transaction with respect to our shares of at least (i) for a holder that is an individual, S corporation, trust or a partnership with at least one non-corporate partner, \$2 million or more in a single taxable year or \$4 million or more in a combination of taxable years, or (ii) for a holder that is either a corporation or a partnership with only corporate partners, \$10 million or more in a single taxable year or \$20 million or more in a combination of taxable years, such holder may be required to file a disclosure statement with the IRS on Form 8886. Direct shareholders of portfolio securities are in many cases exempt from this reporting requirement, but shareholders of a REIT currently are not excepted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Legislative or Other Actions Affecting REITs

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. We cannot give you any assurances as to whether, or in what form, any proposals affecting REITs or their shareholders will be enacted. Changes to the U.S. federal tax laws and interpretations thereof could adversely affect an investment in our shares. Investors should consult with their tax advisors regarding the effect of potential changes to the federal tax laws and on an investment in our shares.

CORPORATE HEADQUARTERS

Kite Realty Group Trust
30 South Meridian Street, Suite 1100
Indianapolis, Indiana 46204
Phone: (317) 577-5600 Fax: (317) 713-2764

WEBSITE

www.kiterealty.com

STOCK EXCHANGE LISTING

KRG
LISTED New York Stock Exchange.
NYSE NYSE: KRG

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP

TRANSFER AGENT AND REGISTRAR

Broadridge Financial Solutions
Ms. Kristen Tartaglione
2 Journal Square, 7th Floor
Jersey City, NJ 07306
(201) 714-8094

SHAREHOLDER INFORMATION

Shareholders seeking financial and operating information may contact Investor Relations, Kite Realty Group Trust, 30 South Meridian Street, Suite 1100, Indianapolis, Indiana 46204. Current investor information, including press releases and quarterly earnings information, can be obtained at www.kiterealty.com.

FORM 10-K

Copies of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 are available to shareholders without charge upon written request to Investor Relations, 30 South Meridian Street, Suite 1100, Indianapolis, Indiana 46204.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 9:00 a.m. EDT on May 9, 2018, at 30 South Meridian Street, Eighth Floor Conference Center, Indianapolis, Indiana 46204.

EXECUTIVE MANAGEMENT TEAM

John A. Kite

Chairman and Chief Executive Officer

Thomas K. McGowan

President and Chief Operating Officer

Daniel R. Sink

Executive Vice President
and Chief Financial Officer

Scott E. Murray

Executive Vice President, General
Counsel and Corporate Secretary

BOARD OF TRUSTEES

John A. Kite

Chairman and Chief Executive Officer
Kite Realty Group Trust

William E. Bindley

Chairman
Bindley Capital Partners, LLC

Victor J. Coleman

Chairman and Chief Executive Officer
Hudson Pacific Properties, Inc.

Lee A. Daniels

Founder
Lee Daniels & Associates

Gerald W. Grupe

Retired President and Chief Executive Officer
Ideal Insurance Agency, Inc.

Christie B. Kelly

Global Chief Financial Officer
Jones Lang LaSalle, Inc.

David R. O'Reilly

Chief Financial Officer
The Howard Hughes Corporation

Barton R. Peterson

Retired Senior Vice President,
Corporate Affairs and Communications
Eli Lilly and Company

Charles H. Wurtzbach

Chairman, Department of Real Estate and Douglas
and Cynthia Crocker Endowed Director, The Real
Estate Center at DePaul University in Chicago, IL

CHAIRMAN EMERITUS

Alvin E. Kite

Kite Realty Group Trust

SECURITIES AND EXCHANGE COMMISSION AND NEW YORK STOCK EXCHANGE CERTIFICATIONS

The certifications of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the public disclosure by the Company and the Operating Partnership and required to be filed with the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, have been filed as Exhibits 31.1, 31.2, 31.3 and 31.4, respectively, in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The Company has submitted to the New York Stock Exchange the certification of the Chief Executive Officer certifying that he is not aware of any violation by the Company of the New York Stock Exchange corporate governance listing standards.

FORWARD-LOOKING STATEMENT

This annual report contains certain statements in this document that are not historical fact may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements, financial or otherwise, expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include, but are not limited to: national and local economic, business, real estate and other market conditions, particularly in light of low growth in the U.S. economy as well as economic uncertainty caused by fluctuations in the prices of oil and other energy sources and inflationary trends or outlook, financing risks, including the availability of, and costs associated with, sources of liquidity, our ability to refinance, or extend the maturity dates of, our indebtedness, the level and volatility of interest rates, the financial stability of tenants, including their ability to pay rent and the risk of tenant bankruptcies, the competitive environment in which we operate, acquisition, disposition, development and joint venture risks, property ownership and management risks, our ability to maintain our status as a real estate investment trust for federal income tax purposes, potential environmental and other liabilities, impairment in the value of real estate property we own, the impact of online retail competition and the perception that such competition has on the value of shopping center assets, risks related to the geographical concentration of our properties in Florida, Indiana and Texas, insurance costs and coverage, risks associated with cybersecurity attacks and the loss of confidential information and other business disruptions and other factors affecting the real estate industry generally. The Company refers you to the documents filed by the Company from time to time with the SEC, specifically the section titled "Risk Factors" in the Company's and the Operating Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which discuss these and other factors that could adversely affect the Company's results. 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.

NON-GAAP FINANCIAL MEASURES

This annual report references certain non-GAAP financial measures, including same property NOI, FFO, as adjusted, and EBITDA. For definitions of these non-GAAP financial measures and reconciliations of each to net income, please refer to pages 62-66 of the Form 10-K that is included as part of this Annual Report.



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