KITE REALTY GROUP TRUST
Form 10-K
March 08, 2013

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

FORM 10-K

(Mark One)

x	Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
	For the fiscal year ended December 31, 2012
o	Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
	For the transition period from ___________to___________
	Commission File Number: 001-32268

Kite Realty Group Trust
(Exact name of registrant as specified in its charter)

Maryland	11-3715772
(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
8.25% Series A Cumulative Redeemable Perpetual Preferred Shares	New York Stock Exchange

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark 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). Yes x No o

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

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x

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 $293 million based upon the closing price of $4.99 per share on the New York Stock Exchange on such date.

The number of Common Shares outstanding as of February 20, 2013 was 77,805,154 ($.01 par value).

Documents Incorporated by Reference

Portions of the Proxy Statement relating to the Registrant's Annual Meeting of Shareholders, scheduled to be held on May 8, 2013, to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

KITE REALTY GROUP TRUST
Annual Report on Form 10-K
For the Fiscal Year Ended
December 31, 2012

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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"). References to "Kite Property Group" or the "Predecessor" mean our predecessor businesses.

Overview

Kite Realty Group Trust is a full-service, vertically integrated real estate company engaged in the ownership, operation, development, construction, and acquisition of high-quality neighborhood and community shopping centers in selected markets in the United States.

We conduct all of our business through our Operating Partnership, of which we are the sole general partner. As of December 31, 2012, we held a 92% interest in our Operating Partnership with limited partners owning the remaining 8%.

As of December 31, 2012, we owned interests in a portfolio of 54 retail operating properties totaling approximately 8.4 million square feet of gross leasable area (including approximately 2.6 million square feet of non-owned anchor space) located in eleven states. Our retail operating portfolio was 94.2% leased to a diversified retail tenant base, with no single retail tenant accounting for more than 4.2% of our total annualized base rent. In the aggregate, our largest 25 tenants accounted for 37.5% of our annualized base rent. See Item 2, "Properties" for a list of our top 25 tenants by annualized base rent.

We also own interests in two commercial operating properties (including the office component of Eddy Street Commons mixed-use property) totaling approximately 0.4 million square feet of net rentable area, both located in the state of Indiana. The leased percentage of our commercial operating portfolio was 93.6% as of December 31, 2012.

As of December 31, 2012, we also had an interest in six in-process development or redevelopment retail projects. Upon completion, these projects are anticipated to have approximately 1.3 million square feet of gross leasable area (including approximately 0.4 million square feet of non-owned anchor space). In addition to our in-process developments and redevelopments, we have future developments, which are in various stages of preparation for construction to commence, including pre-development and pre-leasing activities. As of December 31, 2012, these future developments consisted of four projects that are expected to contain 1.0 million square feet of total gross leasable area (including non-owned anchor space) upon completion.

In addition, as of December 31, 2012, we owned interests in various land parcels totaling approximately 91 acres. These parcels are classified as "Land held for development" in the accompanying consolidated balance sheets and are expected to be used for future expansion of existing properties, development of new retail or commercial properties or sold to third parties.

Significant 2012 Activities

Financing and Capital Raising Activities. As discussed in more detail below in “Business Objectives and Strategies,” our primary business objectives are to generate increasing cash flow, achieve long-term growth and maximize shareholder value primarily through the operation, acquisition, development and redevelopment of well-located community and neighborhood shopping centers. In 2012, one of our primary objectives was the opportunistic strengthening of our balance sheet. We will endeavor in 2013 to continue improving our key financial ratios including our debt to EBITDA ratio. We ended the year 2012 with approximately $79 million of combined cash and borrowing capacity on our unsecured revolving credit facility. We will remain focused on 2013 financing activity and will continue to aggressively manage our operating portfolio and development pipeline.

During 2012 and first two months of 2013, we successfully completed various financing, refinancing and capital-raising activities including the following significant activities:

Common Equity Offering

- In October, we completed an offering of 12.1 million common shares at an offering price of $5.20 per share for net proceeds of $59.7 million. The net proceeds were initially used to reduce the outstanding balance on the Company's unsecured revolving credit facility, and subsequently were redeployed to acquire Shoppes at Plaza Green, Publix at Woodruff, Shoppes at Eastwood (acquired in 2013), and to fund redevelopment activities.

Preferred Equity Offering

- In March, we completed an offering of 1.3 million shares of Series A Cumulative Redeemable Perpetual Preferred Shares at an offering price of $25.12 per share for net proceeds of $31.3 million. The net proceeds were initially used to reduce the outstanding balance on the Company's unsecured revolving credit facility.

Unsecured Term Loan and Unsecured Revolving Credit Facility

- In April, we entered into a new $125 million unsecured term loan (the "Term Loan"). The Term Loan is scheduled to mature on April 30, 2019 with an interest rate of LIBOR plus 210 to 310 basis points, depending on the Company's leverage. The Company utilized the proceeds of the Term Loan to retire the loans secured by our Rivers Edge, Cobblestone Plaza, Estero Town Commons, Tarpon Bay Plaza, and Fox Lake Crossing operating properties, and used the remaining proceeds to partially pay down the Company's unsecured revolving credit facility.

- In April 2012, the Company also amended its unsecured revolving credit facility. The amended terms include an extension of the maturity date to April 30, 2016, which maturity may be extended for an additional year at the Company's option subject to certain conditions, and a reduction in the interest rate to LIBOR plus 190 to 290 basis points, depending on the Company's leverage.

- On February 26, 2013, the Company amended the terms of its existing $200 million unsecured revolving credit facility. The maturity date was extended to February 26, 2017 and the interest rate was reduced to LIBOR plus 165 to 250 basis points, depending on the Company's leverage. The Company has the option to further extend the maturity date to February 26, 2018.

Capital Recycling Activity

- We were able to effectively recycle capital by selling non-core operating properties, outlots, and unoccupied land parcels. During 2012, we generated gross proceeds of $87.4 million from such sales (inclusive of our partners' shares), of which $42.9 million was used to pay down loans secured by the properties. The remaining proceeds were redeployed into acquisition, development activity, redevelopment activity and tenant improvement costs.

Construction Financing Activity

- Draws totaling $45.3 million were made on the variable rate construction loans related to the Delray Marketplace, Cobblestone Plaza, South Elgin Commons, Rivers Edge, and Zionsville Walgreens developments.

- In July, we closed on a $22.8 million construction loan to fund the construction of the Four Corner Square redevelopment near Seattle, Washington. The loan has a maturity date of July 10, 2015 and a variable interest rate of LIBOR plus 225 basis points. During the year, we made draws on this construction loan of $12.6 million.

- In July, we closed on a $37.5 million construction loan to fund the construction of the Holly Springs Towne Center – Phase I development near Raleigh, North Carolina. The loan has a maturity date of July 31, 2015 and variable interest rate of LIBOR plus 250 basis points. During the year, we made draws on this construction loan of $8.9 million.

- In October, we closed on a $18.4 million construction loan to fund the construction of the Rangeline Crossing redevelopment near Indianapolis, Indiana. The loan has a maturity date of October 31, 2014 and a variable interest rate of LIBOR plus 225 basis points. During the year, we made draws on this construction loan of $4.0 million.

2012 Development and Redevelopment Activities

- Oleander Place in Wilmington, North Carolina was substantially completed and transitioned to the operating portfolio in December. This center is 100% leased and is anchored by Whole Foods.

- Zionsville Walgreens near Indianapolis, Indiana was substantially completed and transitioned to the operating portfolio in September. This project is 100% leased to Walgreens.

- Depauw University Bookstore & Cafe, in Greencastle, Indiana was completed and transitioned to the operating portfolio in September. This project is 100% leased and is anchored by Folletts Bookstore and Starbucks.

As of December 31, 2012, we had six in-process development or redevelopment projects consisting of the following:

- Delray Marketplace in Delray Beach, Florida was under development throughout 2012. This center will be anchored by Publix and Frank Theatres along with multiple shop retailers including Charming Charlie's, Chico's, Jos. A Bank, Burt and Max's Grille, and White House | Black Market. Subsequent to December 31, 2012, Publix, Frank Theatre, and multiple shop tenants opened at the center. The Company anticipates that total project costs of the development will be approximately $95 million,of which $89.1 million had been incurred as of December 31, 2012;

- Holly Springs Towne Center – Phase I near Raleigh, North Carolina was under development throughout 2012. This center will be anchored by Dick's Sporting Goods, Marshall's, Michael's, and Petco and a non-owned Target. The Company anticipates its total investment in the development will be approximately $57 million, of which $38.1 million had been incurred as of December 31, 2012;

- Four Corner Square/Maple Valley near Seattle, Washington was under redevelopment throughout 2012. This center will be anchored by Grocery Outlet, Walgreens, and Do It Best Hardware. The Company currently anticipates its total investment in the redevelopment and expansion will be approximately $23.5 million (net of projected property sales), of which $19.8 million had been incurred as of December 31, 2012;

- Rangeline Crossing near Indianapolis, Indiana was transitioned to an in-process redevelopment in June. This center will be anchored by Earth Fare, Walgreens, Old National Bank, and Panera. The Company anticipates its total investment in the redevelopment will be $15.5 million, of which $2.9 million had been incurred as of December 31, 2012;

- Parkside Town Commons – Phase I near Raleigh, North Carolina was transitioned to an in-process development in December. This center will be anchored by Harris Teeter and a non-owned Target. Additionally, the Company acquired its partner's 60% interest in the development project in December 2012 for $13.3 million. The Company anticipates its total investment in the development will be $39.0 million, of which $13.0 million had been incurred as of December 31, 2012; and

- Bolton Plaza in Jacksonville, Florida was transitioned to an in-process redevelopment in December. The Company signed a lease with LA Fitness to join the currently open Academy Sports & Outdoors. The Company anticipates its total investment in the development will be $10.3 million, of which $3.2 million had been incurred as of December 31, 2012;

2012 Acquisitions

- Cove Center, a 155,000 square foot shopping center in Stuart, Florida, was acquired in June for a purchase price of $22.1 million. This center is anchored by Publix and Beall's.

- 12th Street Plaza, a 141,000 square foot shopping center in Vero Beach, Florida, was acquired in July for a purchase price of $15.2 million. This center is anchored by Publix and Stein Mart.

- Publix at Woodruff, a 68,000 square foot shopping center located in Greenville, South Carolina was acquired in December for a purchase price of $9.1 million. This center is anchored by Publix.

- Shoppes at Plaza Green, a 196,000 square foot shopping center in Greenville, South Carolina, was acquired in December for a purchase price of $28.8 million. This center is anchored by multiple tenants including Bed Bath & Beyond, Christmas Tree Shops, and Old Navy.

2012 Cash Distributions

In 2012, we declared cash distributions of $0.06 per common share with respect to each of the four quarters. We also declared cash distributions of $0.515625 per share of our 8.250% Series A Cumulative Redeemable Perpetual Preferred Share ("Series A Preferred Shares") with respect to each of the four quarters.

Business Objectives and Strategies

Our primary business objectives are to increase the cash flow and build or realize capital appreciation of our properties, achieve sustainable long-term growth and maximize shareholder value primarily through the operation, development, redevelopment and select acquisition of well-located community and neighborhood shopping centers. We invest in properties with well-located real estate with strong demographics, combined with effective leasing and management strategies, to improve the long-term values and economic returns of our properties. The Company believes that certain of its properties represent opportunities for future 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 those properties 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 debt and equity capital prudently to redevelop or renovate our existing properties, selectively acquiring additional retail properties and develop shopping centers on land parcels that we currently own 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 borrowings under our existing revolving credit facility, new secured debt, opportunistically accessing the public securities markets, internally generated funds and proceeds from selling land and properties that no longer fit our strategy, and potential investment in strategic joint ventures. We continuously monitor the capital markets and may consider raising additional capital through the issuance of our common shares, preferred shares or other securities.

Operating Strategy. Our primary operating strategy is to maximize revenue and maintain or increase 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 has allowed us to maintain and, in some 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 monitor costs;

- maintaining a diverse tenant mix in an effort to limit our exposure to the financial condition of any one tenant or any category of tenants;

- maintaining the physical appearance, condition, and design of our properties and other improvements located on our properties to maximize our ability to attract customers;

- 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-tenanting space; and

- taking advantage of under-utilized land or existing square footage, reconfiguring properties for better use, or adding ancillary income areas to existing facilities.

We employed our operating strategy in 2012 in a number of ways, including increasing our total leased percentage from 93.3% at December 31, 2011 to 94.2% at December 31, 2012, through the signing of over 517,000 square feet of new leases in 2012. We have also been successful in maintaining a diverse retail tenant mix with no tenant accounting for more than 4.2% of our annualized base rent. See Item 2, “Properties” for a list of our top tenants by gross leasable area 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 intend to 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 or re-leasing to existing tenants at increased rental rates;
- capitalizing on future development opportunities on currently owned land parcels through the achievement of anchor and small shop pre-leasing targets and obtaining financing prior to commencing vertical construction;
- disposing of selected assets that no longer meet our long-term investment criteria and recycling the net proceeds into assets that provide maximum returns and upside potential in desirable markets; and
- selectively pursuing the acquisition of retail operating properties and portfolios in markets with strong demographics and attract successful retail tenants.

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, and the tax consequences of the sale as well as other related factors;
- the current tenant mix at the property and the potential future tenant mix that the demographics of the property could support, including the presence of one or more additional anchors (for example, value retailers, grocers, soft goods stores, office supply stores, or sporting goods retailers), as well as an overall diverse tenant mix that includes restaurants, shoe and clothing retailers, specialty shops and service retailers such as banks, dry cleaners and hair salons, 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, abundance of parking, maximum visibility, and the demographics of the surrounding area; and
- the level of success of existing properties in the same or nearby markets.

In 2012, we were successful in recycling capital through the disposal of certain non-core properties or properties with limited growth potential including our Pen Products and Indiana State Motor Pool commercial properties and our Gateway Shopping Center, Sandifur Plaza, Zionsville Place, Preston Commons, 50 South Morton, South Elgin Commons, and Coral Springs Plaza retail properties. During 2012, we generated gross proceeds of $87.4 million from such sales (inclusive of our partners’ share), of which $42.9 million was used to pay down loans secured by the properties. We successfully redeployed the remaining proceeds into acquisitions in selected growth markets including Greenville, South Carolina and Vero Beach, Florida.

In 2012, we were successful in executing new leases for anchor tenants at multiple properties in our development, redevelopment, and operating portfolios. We signed anchor leases totaling 241,000 square feet, including two anchor leases at our Parkside Town Commons development, Earth Fare at our Rangeline Crossing redevelopment, Fresh Market at our Shops at Eagle Creek and our Lithia Crossing operating properties, and LA Fitness at Bolton Plaza and Stoney Creek Commons.

Financing and Capital Preservation Strategy. We finance our development, redevelopment and acquisition activities seeking to use the most advantageous sources of capital available to us at the time. These sources may include 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 investment in real estate joint ventures.

Our primary financing and capital preservation strategy is to maintain a strong balance sheet with sufficient flexibility to fund our operating and development activities in the most cost-effective way. We consider a number of factors when evaluating our level of indebtedness and when making decisions regarding additional borrowings, including the purchase price of properties to be developed or acquired with debt financing, the estimated market value of our properties and the Company as a whole upon consummation of the refinancing, and the ability of particular properties to generate cash flow to cover expected debt service. Our efforts to strengthen our balance sheet are essential to the success of our business. We intend to continue implementing our financing and capital strategies in a number of ways, including:

- prudently managing our balance sheet, including reducing the aggregate amount of indebtedness outstanding 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 feasible;
- extending the maturity dates of and/or refinancing of our near-term mortgage, construction and other indebtedness;
- staggering our maturities with long-term debt on recently completed projects;
- entering into construction loans prior to commencement of vertical construction to fund our larger in-process developments, redevelopments, and future developments;
- 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 use of fixed rate hedging transactions and securing property specific long-term nonrecourse financing; and
- investing in joint venture arrangements in order to access less expensive capital and to mitigate risk.

Business Segments

Our principal business is the ownership, operation, acquisition and development of high-quality neighborhood and community shopping centers in selected markets in the United States.

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 development, acquisition, ownership and leasing of shopping centers as well as from numerous local, regional and national real estate developers and owners in each of our markets. 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, or ADA, to the extent that such properties are public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in 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.

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 operations may have released, or have the potential to release, such substances into the environment.

In addition, some of our properties have tenants which may use hazardous or toxic substances in the routine course of their businesses. 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, 2012, we had 84 full-time employees. The majority of these employees were “home office” personnel.

Available Information

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

Also available on our website, free of charge, are copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate Governance Guidelines, and the charters for each of the committees of our Board of Trustees—the Audit Committee, the Corporate Governance and Nominating Committee, and the Compensation Committee. Copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate Governance Guidelines, and our committee charters are also available 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

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

The United States economy is recovering from the recent recession in an uneven fashion. Similarly, the specific markets in which we operate may face challenging economic conditions that could persist into the future. In particular, as of December 31, 2012, 36% of our owned square footage and 39% of our total annualized base rent was located in Indiana, 27% of our owned square footage and total annualized base rent was located in Florida, and 17% of our owned square footage and 16% of our total annualized base rent was located in Texas. This level of concentration could expose us to greater economic risks than if we owned properties in numerous geographic regions. Many states continue to deal with state fiscal budget shortfalls and high unemployment rates. Adverse economic or real estate trends in Indiana, Florida, 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.

Severe disruptions in the financial markets could affect our ability to obtain financing for development of our properties and other purposes on reasonable terms, or at all, and have other material adverse effects on our business.

Disruptions in the credit markets generally, or relating to the real estate industry specifically, may adversely affect our ability to obtain debt financing at favorable rates or at all. In 2008 and 2009, the United States financial and credit markets experienced significant price volatility, dislocations and liquidity disruptions, which caused market prices of many financial instruments to fluctuate substantially and the spreads on prospective debt financings to widen considerably. Those circumstances materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases resulted in the unavailability of financing. Although the credit markets have recovered from this severe dislocation, there are a number of continuing effects, including a weakening of many traditional sources of debt financing, a reduction in the overall amount of debt financing available, lower loan to value ratios, a tightening of lender underwriting standards and terms and 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. For example, as of December 31, 2012, we had approximately $29 million and $78 million of debt maturing in 2013 and 2014, respectively. If we are not successful in refinancing our outstanding debt when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations.

If economic conditions similar to those which existed in 2008 and 2009 re-emerge in the future, we may be forced to seek alternative sources of potentially less attractive financing, and have to adjust our business plan accordingly. In addition, we may be unable to obtain permanent financing on development projects we temporarily financed with construction loans. Our inability to obtain such permanent financing on favorable terms, if at all, could delay the completion of our development projects and/or cause us to incur additional capital costs in connection with completing such projects, either of which could have a material adverse effect on our business and our ability to execute our business strategy. These events also may make it more difficult or costly for us to raise capital through the issuance of our common stock or preferred stock. 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 adverse effects on our business.

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. As discussed above, there are a number of continuing effects of the difficult conditions experienced in the United States financial and credit markets in recent years. If our tenants are unable to secure financing necessary to continue to operate 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, which could materially and adversely affect us.

Ongoing challenging conditions in the United States and global economy, 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.

The United States economy is still experiencing weakness from the recession of 2008 and 2009. This structural weakness has resulted in continuing high levels of unemployment, the bankruptcy or weakened financial condition of a number of retailers, decreased consumer spending, increased home foreclosures, low consumer confidence, a decline in residential and commercial property values and reduced demand and rental rates for retail space. Although the United States economy appears to have emerged from the worst aspects of the 2008/2009 recession, market conditions remain challenging as high levels of unemployment and low consumer confidence have persisted. There can be no assurance that the recovery will continue. General economic factors that are beyond our control, including, but not limited to, economic recessions, decreases in consumer confidence, reductions in consumer credit availability, increasing consumer debt levels, rising energy costs, higher tax rates, continued business layoffs, downsizing and industry slowdowns, and/or rising 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 rental concenssions on such leases, or (iv) be forced to curtail operations or declare bankruptcy. We are also susceptible to other developments that, while not directly tied to the economy, could have a material adverse effect on our business. These developments include relocations of businesses, changing demographics, increased Internet shopping, infrastructure quality, federal, state, and local budgetary constraints and priorities, increases in real estate and other taxes, costs of complying with government regulations or increased regulation, 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. The ongoing challenging market conditions could require us to recognize an impairment charge, with respect to one or more of our properties, or a loss on disposition of one or more of our properties.

Our business is significantly influenced by demand for retail space generally, and a decrease in such demand 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 portfolio. The market for retail space has been, and could continue to be, adversely affected by weakness in the national, regional and local economies, the adverse financial condition of some large retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets, and increasing consumer purchases through the Internet. 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, the trading price of our common shares and our ability to satisfy our debt service obligations and to pay distributions to our shareholders.

Failure by any major tenant with leases in multiple locations to make rental payments to us, because of a deterioration of its financial condition or otherwise, could 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 uncertainty. 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. 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. As of December 31, 2012, the five largest tenants in our operating portfolio in terms of annualized base rent were Publix, Bed Bath & Beyond, Lowe's Home Improvement, PetSmart and Marsh Supermarkets, representing 4.2%, 3.4%, 2.1%, 2.1%, and 2.0%, respectively, of our total annualized base rent.

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

Tenant bankruptcies may increase during periods of difficult economic conditions. We cannot make any assurance that a tenant that files for bankruptcy protection will continue to pay its rent obligations. A bankruptcy filing by or relating to one of our tenants or a lease guarantor would legally bar our efforts to collect pre-bankruptcy debts from that tenant or the lease guarantor, unless we receive an order permitting us to do so from the bankruptcy court. A tenant or lease guarantor bankruptcy could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages 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 will 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.

We had $700 million of consolidated indebtedness outstanding as of December 31, 2012, 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 may materially adversely affect our operating performance. We had $700 million of consolidated outstanding indebtedness as of December 31, 2012, of which $29 million is scheduled to mature in 2013, and $78 million is scheduled to mature in 2014. At December 31, 2012, $361 million of our debt bore interest at variable rates ($197 million when reduced by our $164 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, 2012 increased by 1%, the increase in interest expense on our variable rate debt would decrease future cash flows by $2.0 million annually.

We also intend to incur additional debt in connection with various development and redevelopment projects, and may incur additional debt with acquisitions of properties. Our organizational documents do not limit the amount of indebtedness that we may incur. We may borrow new funds to develop or acquire properties. In addition, we may incur or increase our mortgage debt by obtaining loans secured by some or all of the real estate properties we develop or acquire. We also may borrow funds if necessary to satisfy the requirement that we distribute to shareholders at least 90% of our annual "REIT taxable income" (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 in the agreement, covenant or condition contained in the agreements, failure to maintain certain financial and operating ratios and other criteria, misrepresentations 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 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. For example, as of December 31, 2012, a wholly-owned subsidiary of the Company was in payment default on a $29.5 million non-recourse loan due to insufficient cash flow from the related operating property to fully support the debt service on the loan. Under the terms of the loan agreement, interest accrues at the stated rate of 5.70% plus a 4.00% default rate and the principal balance of the loan may be called at any time at the election of the lender. The lender has not indicated an intent to exercise its right to call the loan, but it has also not provided formal waiver thereof to the Company. The payment default on this loan did not trigger any cross defaults on its other indebtedness or any of its derivative instruments.

However, certain of our fixed-rate and variable-rate loans 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 the loans. Our unsecured revolving credit facility agreement contains a similar provision providing that an "Event of Default" under our Term Loan will constitute an "Event of Default" under our unsecured revolving credit facility agreement. These provisions could allow the lending institutions to accelerate the amount due under the loans. The Company was in compliance with all applicable covenants under the unsecured revolving credit facility and Term Loan as of December 31, 2012.

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 meet mortgage payments, the holder of the mortgage or lender 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. 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.

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 counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. Further, should we choose to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our initial obligation under the hedging agreement.

Our performance and value are subject to risks associated with real estate assets and with 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 and our ability to satisfy debt service obligations and 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: Indiana, where 36% of our owned square footage and 39% of our total annualized base rent is located; Florida, where 27% of our owned square footage and total annualized base rent is located; and Texas, where 17% of our owned square footage and 16% 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;
- changes 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;
- the need to periodically fund the costs to repair, renovate and re-lease space;
- decreased attractiveness of our properties to tenants;
- weather conditions that may increase or decrease energy costs and other weather-related expenses (such as snow removal costs);

- costs of complying with changes in governmental regulations, including those governing 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; and

- changing traffic patterns.

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 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, 2012, we owned four of our operating properties through joint ventures. As of December 31, 2012, the four properties represented 4.7% of our annualized base rent. In addition, one of our in-process development projects is currently owned through a 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.

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

We compete with numerous developers, owners and operators of retail shopping centers 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 in which our properties are located, but which have greater capital resources. As of December 31, 2012, leases were scheduled to expire on a total of 5.0% of the space at our properties in 2013. 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 to potential tenants 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. Any capital improvements we undertake may reduce cash available for distributions to shareholders.

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

We have six in-process development/redevelopment projects and four future development/redevelopment projects. New development projects and property acquisitions are subject to a number of risks, including, but not limited to:

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

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 will increase, which will result in reduced returns, or even losses, from such investments. In deciding whether to acquire or develop a particular property, we make certain assumptions regarding the expected future performance of that property. If these new properties do not perform as expected, our financial performance may be materially and adversely affected or an impairment charge could occur. In addition, the issuance of equity securities as consideration for any acquisitions could be dilutive to our shareholders.

We may not be successful in identifying suitable acquisitions or development and redevelopment projects that meet our investment criteria, which may impede our growth.

Part of our business strategy is expansion through acquisitions and development and redevelopment projects, which requires us to identify suitable development or acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable real estate properties or other assets that meet our development or acquisition criteria, or we may fail to complete developments, acquisitions or investments on satisfactory terms. Failure to identify or complete developments or acquisitions could slow our growth, which could in turn materially adversely affect our operations.

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

We currently have three in-process redevelopment projects and one future redevelopment project. We expect to redevelop certain of our other properties in the future. In connection with any 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 and/or redevelopment project is not completed on time. In the case of a redevelopment project, consents may be required from various tenants in order to redevelop a center. 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 and could, under certain circumstances, be required to pay certain tax indemnities 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. In addition, in connection with our formation at the time of our initial public offering (“IPO”), we entered into an agreement that restricts our ability, prior to December 31, 2016, to dispose of six of our properties in taxable transactions and limits the amount of gain we can trigger with respect to certain other properties without incurring reimbursement obligations owed to certain limited partners of our Operating Partnership. We have agreed that if we dispose of any interest in six specified properties in a taxable transaction before December 31, 2016, we will indemnify the contributors of those properties for their tax liabilities attributable to the built-in gain that exists with respect to such property interest as of the time of our IPO (and tax liabilities incurred as a result of the reimbursement payment). The six properties to which our tax indemnity obligations relate represented 16.0% of our annualized base rent in the aggregate as of December 31, 2012. These six properties are International Speedway Square, Shops at Eagle Creek, Whitehall Pike, Ridge Plaza, Thirty South and Market Street Village. We also agreed to limit the aggregate gain certain limited partners of our Operating Partnership would recognize, with respect to certain other contributed properties through December 31, 2016, to not more than $48 million in total, with certain annual limits, unless we reimburse them for the taxes attributable to the excess gain (and any taxes imposed on the reimbursement payments), and take certain other steps to help them avoid incurring taxes that were deferred in connection with the formation transactions.

The agreement described above is extremely complicated and imposes a number of procedural requirements on us, which makes it more difficult for us to ensure that we comply with all of the various terms of the agreement and therefore creates a greater risk that we may be required to make an indemnity payment. The complicated nature of this agreement also might adversely impact our ability to pursue other transactions, including certain kinds of strategic transactions and reorganizations.

Also, the tax laws applicable to REITs require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interest. 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.

Potential losses may not be covered by insurance.

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. 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 corresponding revenues.

Our existing properties and any properties we develop or acquire in the future are and will 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. 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. 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. 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.

We could incur significant costs related to government regulation and 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 operations 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 properties must also comply with Title III of the Americans with Disabilities Act, or ADA, to the extent that such properties are public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. 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, any of which could adversely affect our financial condition.

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.

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

Most of our leases contain provisions requiring the tenant to pay its 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.

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 includes 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 to the board that are satisfactory to the board, 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. Thus, our Board 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 additional preferred shares that we issue likely would, like our Series A Preferred Shares, 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.

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 sale could cause our common share price to decline significantly.

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, 2012, we had outstanding 77,728,697 common shares. Of these shares, 77,247,877 are freely tradable with the remainder held generally by our "affiliates," as that term is defined by Rule 144 under the Securities Act. In addition, 6,738,784 units of our Operating Partnership are owned by our executive officers and other individuals, 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. Our executive officers' experience in real estate acquisition, development and finance are critical elements of our future success. We have employment agreements for one-year terms with each of our executive officers. These agreements automatically renew for a one-year term unless either we or the officer elects not to renew them. These agreements have been automatically renewed for our three executive officers through December 31, 2013. If one or more of our key executives were to die, become disabled or otherwise leave the company's employ, we may not be able to replace this person with an executive officer of equal skill, ability, and industry expertise. Until suitable replacements could be identified and hired, if at all, our operations and financial condition could be impaired.

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 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, in a manner he or she reasonably believes to be in our best interests 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 Board of Trustees has adopted policies with respect to certain activities. 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 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, or the “NYSE,” on which we list our common and preferred shares) have experienced significant price and volume fluctuations. The market price of our common and preferred 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;

- publication by securities analysts of research reports about us or our 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 or hedge funds;
- increase or decrease in dividends;
- changes in accounting principles;
- terrorist acts; and
- general market conditions, including factors unrelated to our performance.

Moreover, an active trading market on the NYSE for our Series A Preferred Shares may not exist or, if it does exist, may not last, in which case the trading price of our Series A Preferred Shares could be adversely affected. 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.

Holders of our Series A Preferred Shares have extremely limited voting rights.

Holders of our Series A Preferred Shares have extremely limited voting rights. Our common shares are the only class of our equity securities carrying full voting rights. Voting rights for holders of Series A Preferred Shares exist primarily with respect to the ability to appoint additional trustees to our Board of Trustees in the event that six quarterly dividends (whether or not consecutive) payable on our Series A Preferred Shares are in arrears, and with respect to voting on amendments to our declaration of trust or our Series A Preferred Shares Articles Supplementary that materially and adversely affect the rights of Series A Preferred Shares holders or create additional classes or series of preferred shares that are senior to our Series A Preferred Shares. Other than in very limited circumstances, holders of our Series A Preferred Shares will not have voting rights.

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 Internal Revenue Code, we would be subject to federal income tax at regular corporate rates. As a taxable corporation, we would not be allowed 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. We also could be subject to the federal alternative minimum tax 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 unless the IRS were to grant us relief under certain statutory provisions. If we failed to qualify 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. If we fail to qualify as a REIT, such failure would cause an event of default under our unsecured revolving credit facility 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. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the statutory savings provisions in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of $50,000 or more for each such failure.

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 our predecessors otherwise would have sold or that it 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.

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.

Dividends paid by REITs generally do not qualify for reduced tax rates.

The American Taxpayer Relief Act of 2012 (“ATRA”) was enacted on January 3, 2013. Under ATRA, for taxable years beginning in 2013, for noncorporate taxpayers, the maximum rate applicable to “qualified dividend income” paid by regular “C” corporations to U.S. shareholders generally is 20%, and there is no certainty as to how long this rate will be applicable. Dividends payable by REITs, however, generally are not eligible for the current reduced rate. Although ATRA does not adversely affect the taxation of REITs or dividends payable by REITs, it could cause noncorporate taxpayers to perceive investments in REITs to be relatively less attractive than investments in the stocks of regular “C” corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Retail Operating Properties

As of December 31, 2012, we owned interests in a portfolio of 54 retail operating properties totaling 8.4 million square feet of gross leasable area ("GLA") (including non-owned anchor space). The following tables set forth more specific information with respect to the Company's retail operating properties as of December 31, 2012:

OPERATING RETAIL PROPERTIES - TABLE I

Property1	State	MSA	Year Built/Renovated	Year Added to Operating Portfolio	Acquired, Redeveloped, or Developed	Total GLA2	Owned GLA2	Percentage of Owned GLA Leased3	
12th Street Plaza	FL	Vero Beach	1978/2003	2012	Acquired	141,323	138,268	96.6	%
Bayport Commons7	FL	Oldsmar	2008	2008	Developed	268,556	97,112	88.9	%
Cobblestone Plaza	FL	Ft. Lauderdale	2011	2011	Developed	143,493	133,214	97.1	%
Cove Center	FL	Stuart	1984/2008	2012	Acquired	154,696	154,696	96.7	%
Estero Town Commons7	FL	Naples	2006	2007	Developed	206,600	25,631	56.9	%
Indian River Square	FL	Vero Beach	1997/2004	2005	Acquired	379,246	142,706	95.9	%
International Speedway Square	FL	Daytona	1999	1999	Developed	242,995	231,023	98.3	%
King's Lake Square	FL	Naples	1986	2003	Acquired	85,497	85,497	89.3	%
Lithia Crossing	FL	Tampa	2003	2011	Acquired	96,513	91,067	90.0	%
Pine Ridge Crossing	FL	Naples	1993	2006	Acquired	258,874	105,515	94.9	%
Riverchase Plaza	FL	Naples	1991/2001	2006	Acquired	78,380	78,330	97.4	%
Shops at Eagle Creek	FL	Naples	1983	2003	Redeveloped	72,271	69,980	87.9	%
Tarpon Bay Plaza	FL	Naples	2007	2007	Developed	276,346	82,547	94.6	%
Gainesville Plaza	FL	Gainesville	1970	2004	Acquired	177,826	177,826	90.9	%
Waterford Lakes Village	FL	Orlando	1997	2004	Acquired	77,948	77,948	96.1	%
Kedron Village	GA	Atlanta	2006	2006	Developed	282,125	157,345	89.2	%

Publix at Acworth	GA	Atlanta	1996	2004	Acquired	69,628	69,628	81.6	%
The Centre at Panola	GA	Atlanta	2001	2004	Acquired	73,079	73,079	93.6	%
Fox Lake Crossing	IL	Chicago	2002	2005	Acquired	99,072	99,072	87.8	%
Naperville Marketplace	IL	Chicago	2008	2008	Developed	169,600	83,763	98.1	%
54th & College	IN	Indianapolis	2008	2008	Developed	20,100	—	*	
Beacon Hill7	IN	Crown Point	2006	2007	Developed	127,821	57,191	80.5	%
Boulevard Crossing	IN	Kokomo	2004	2004	Developed	213,696	124,629	95.9	%
Bridgewater Marketplace	IN	Indianapolis	2008	2008	Developed	50,820	25,975	68.2	%
Cool Creek Commons	IN	Indianapolis	2005	2005	Developed	137,107	124,646	95.6	%
DePauw University Bookstore & Cafe	IN	Greencastle	2012	2012	Developed	11,974	11,974	100.0	%
Eddy Street Commons (Retail Only)	IN	South Bend	2009	2010	Developed	88,143	88,143	92.8	%
Fishers Station4	IN	Indianapolis	1989	2004	Acquired	116,885	116,885	95.3	%
Geist Pavilion	IN	Indianapolis	2006	2006	Developed	64,114	64,114	79.5	%
Glendale Town Center	IN	Indianapolis	1958/2008	2008	Redeveloped	685,827	392,427	98.5	%
Greyhound Commons	IN	Indianapolis	2005	2005	Developed	153,187	—	*	
Hamilton Crossing Centre	IN	Indianapolis	1999	2004	Acquired	87,353	82,353	98.3	%
Red Bank Commons	IN	Evansville	2005	2006	Developed	324,308	34,258	67.3	%
Rivers Edge	IN	Indianapolis	2011	2011	Redeveloped	149,209	149,209	100.0	%
Stoney Creek Commons	IN	Indianapolis	2000	2000	Developed	189,527	84,330	100.0	%
The Corner	IN	Indianapolis	1984/2003	1984	Developed	42,534	42,534	93.8	%
Traders Point	IN	Indianapolis	2005	2005	Developed	348,835	279,684	99.2	%
Traders Point II	IN	Indianapolis	2005	2005	Developed	46,600	46,600	63.5	%
Whitehall Pike	IN	Bloomington	1999	1999	Developed	128,997	128,997	100.0	%
Zionsville Walgreens	IN	Indianapolis	2012	2012	Developed	14,550	14,550	100.0	%
Oleander Place	NC	Wilmington	2012	2012	Redeveloped	47,610	45,530	100.0	%
Ridge Plaza	NJ	Oak Ridge	2002	2003	Acquired	115,088	115,088	79.9	%
	OH	Cincinnati	1995	2004	Acquired	236,230	236,230	100.0	%

Eastgate Pavilion									
Cornelius Gateway7	OR	Portland	2006	2007	Developed	35,800	21,324	62.3	%
Shops at Otty5	OR	Portland	2004	2004	Developed	154,845	9,845	100.0	%
Shoppes at Plaza Green	SC	Greenville	2000	2012	Acquired	195,534	195,534	94.8	%
Publix at Woodruff	SC	Greenville	1997	2012	Acquired	68,055	68,055	97.4	%
Burlington Coat Factory6	TX	San Antonio	1992/2000	2000	Redeveloped	107,400	107,400	100.0	%
Cedar Hill Village	TX	Dallas	2002	2004	Acquired	139,092	44,214	97.0	%
Market Street Village	TX	Hurst	1970/2004	2005	Acquired	163,625	156,625	100.0	%
Plaza at Cedar Hill	TX	Dallas	2000	2004	Acquired	303,458	303,458	98.2	%
Plaza Volente	TX	Austin	2004	2005	Acquired	160,333	156,333	96.9	%
Sunland Towne Centre	TX	El Paso	1996	2004	Acquired	311,413	306,437	88.6	%
50th & 12th	WA	Seattle	2004	2004	Developed	14,500	14,500	100.0	%
					TOTAL	8,408,638	5,823,319	94.2	%

OPERATING RETAIL PROPERTIES - TABLE I (continued)

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*	Property consists of ground leases only and, therefore, no Owned GLA. 54th & College is a single ground lease property; Greyhound Commons has two of four outlots leased.
1	All properties are wholly owned, except as indicated. Unless otherwise noted, each property is owned in fee simple by the Company.
2	Owned GLA represents gross leasable area that is owned by the Company. Total GLA includes Owned GLA, square footage attributable to non-owned anchor space, and non-owned structures on ground leases.
3	Percentage of Owned GLA Leased reflects Owned GLA/net rentable area ("NRA") leased as of December 31, 2012, except for Greyhound Commons and 54th & College (see *).
4	This property is divided into two parcels: a grocery store and small shops. The Company owns a 25% interest in the small shops parcel through a joint venture and a 100% interest in the grocery store. The joint venture partner is entitled to an annual preferred payment of $106,000. All remaining cash flow is distributed to the Company.
5	The Company does not own the land at this property. It has leased the land pursuant to two ground leases that expire in 2017. The Company has six five-year options to renew this lease.
6	The Company does not own the land at this property. It has leased the land pursuant to a ground lease that expires in 2013. The Company has four remaining five-year renewal options and a right of first refusal to purchase the land.
7	The Company owns and manages the following properties through joint ventures with third parties: Beacon Hill (50%); Cornelius Gateway (80%); and Bayport Commons (60%).

OPERATING RETAIL PROPERTIES – TABLE II

Property	State	MSA	Encumbrances	Annualized Base Rent Revenue1	Annualized Ground Lease Revenue	Annualized Total Retail Revenue	Percentage of Annualized Total Retail Revenue	Base Rent Per Leased Owned GLA2	Major Tenants and Non-Owned Anchors3
12th Street Plaza	FL	Vero Beach	$7,765,978	$1,252,327	$ —	$1,252,327	1.69%	$9.37	Publix, Stein Mart, Tuesday Morning, Sunshine Furniture, Planet Fitness
Bayport Commons	FL	Oldsmar	12,914,303	1,579,951	-	1,579,951	2.13%	18.29	PetSmart, Michaels, Target (non-owned)
Cobblestone Plaza	FL	Ft. Lauderdale	—	3,265,993	250,000	3,515,993	4.73%	25.25	Whole Foods, Party City, All Pets Emporium
Cove Center	FL	Stuart	—	1,431,464	-	1,431,464	1.93%	9.57	Publix, Beall’s
Estero Town Commons	FL	Naples	—	339,704	750,000	1,089,704	1.47%	23.30	Lowe's Home Improvement
Indian River Square	FL	Vero Beach	12,658,987	1,477,601	125,000	1,602,601	2.16%	10.79	Beall's, Office Depot, Target (non-owned), Lowe's Home Improvement (non-owned)
International Speedway Square	FL	Daytona	20,577,546	2,369,468	418,475	2,787,943	3.75%	10.44	Bed Bath & Beyond, Stein Mart, Old Navy, Staples, Michaels, Dick’s Sporting Goods
King's Lake Square	FL	Naples	—	861,180	-	861,180	1.16%	11.28	Publix, Retro Fitness
Lithia Crossing	FL	Tampa	—	1,144,571	72,000	1,216,571	1.64%	13.97	Stein Mart
Pine Ridge Crossing	FL	Naples	17,285,953	1,597,003	-	1,597,003	2.15%	15.95	Publix, Target (non-owned), Beall's (non-owned)
Riverchase Plaza	FL	Naples	10,371,572	1,122,118	-	1,122,118	1.51%	14.70	Publix
Shops at Eagle Creek	FL	Naples	—	867,422	55,104	922,526	1.24%	14.11	Staples, Lowe’s Home Improvement

									(non-owned)
Tarpon Bay Plaza	FL	Naples	—	1,665,782	100,000	1,765,782	2.38%	21.32	Cost Plus, A C Moore, Staples, Target (non-owned)
Gainesville Plaza	FL	Gainesville	—	833,025	-	833,025	1.12%	5.15	Books-A-Million, Save-A-Lot, Wal-Mart
Waterford Lakes Village	FL	Orlando	—	913,496	-	913,496	1.23%	12.19	Winn-Dixie
Kedron Village	GA	Atlanta	29,464,314	2,411,464	-	2,411,464	3.24%	17.18	Bed Bath & Beyond, Ross, PETCO, Target (non-owned)
Publix at Acworth	GA	Atlanta	—	645,107	-	645,107	0.87%	11.35	Publix
The Centre at Panola	GA	Atlanta	3,035,797	795,662	-	795,662	1.07%	11.64	Publix
Fox Lake Crossing	IL	Chicago	—	1,165,857	-	1,165,857	1.57%	13.40	Dominick's Finer Foods
Naperville Marketplace	IL	Chicago	—	1,050,501	-	1,050,501	1.41%	12.79	TJ Maxx, PetSmart, Caputo’s (non-owned)
54th & College	IN	Indianapolis	—	-	260,000	260,000	0.35%	-	The Fresh Market (non-owned)
Beacon Hill	IN	Crown Point	7,041,750	678,147	-	678,147	0.91%	14.73	Strack & Van Til (non-owned), Walgreens (non-owned)
Boulevard Crossing	IN	Kokomo	—	1,677,655	-	1,677,655	2.26%	14.04	PETCO, TJ Maxx, Ulta Salon, Kohl's (non-owned)
Bridgewater Marketplace	IN	Indianapolis	2,000,000	306,929	-	306,929	0.41%	17.33	Walgreens (non-owned)
Cool Creek Commons	IN	Indianapolis	17,166,085	1,942,719	-	1,942,719	2.61%	16.31	The Fresh Market, Stein Mart, Bang Fitness
DePauw University Bookstore and Café	IN	Greencastle	—	100,119	-	100,119	0.13%		Folletts, Starbucks
Eddy Street Commons	IN	South Bend	25,064,365	1,922,901	-	1,922,901	2.59%	23.51	Hammes Bookstore, Urban Outfitters
Fishers Station	IN	Indianapolis	8,000,000	1,281,804	-	1,281,804	1.72%	11.51	Marsh Supermarkets, Goodwill, Dollar

									Tree
Geist Pavilion	IN	Indianapolis	11,003,937	856,279	-	856,279	1.15%	16.80	Goodwill, Ace Hardware
Glendale Town Center	IN	Indianapolis	—	2,591,761	-	2,591,761	3.49%	6.70	Macy’s, Landmark Theatres, Staples, Indianapolis Library, Lowe's Home Improvement (non-owned), Target (non-owned), Walgreens (non-owned)
Greyhound Commons	IN	Indianapolis	—	-	221,748	221,748	0.30%	-	Lowe's Home Improvement (non-owned)
Hamilton Crossing Centre	IN	Indianapolis	—	1,506,022	78,650	1,584,672	2.13%	18.60	Office Depot
Red Bank Commons	IN	Evansville	—	316,356	-	316,356	0.43%	13.72	Wal-Mart (non-owned), Home Depot (non-owned)
Rivers Edge	IN	Indianapolis	—	2,834,774	-	2,834,774	3.81%	19.00	Buy Buy Baby, Nordstrom Rack, The Container Store, Arhaus Furniture
Stoney Creek Commons	IN	Indianapolis	—	998,823	-	998,823	1.34%	11.84	HH Gregg , Office Depot, Lowe's Home Improvement (non-owned)
The Corner	IN	Indianapolis	—	613,210	-	613,210	0.83%	15.37	Hancock Fabrics
Traders Point	IN	Indianapolis	45,091,190	4,105,562	435,000	4,540,562	6.11%	14.80	Dick's Sporting Goods, AMC Theatre, Marsh, Bed Bath & Beyond, Michaels, Old Navy, PetSmart
Traders Point II	IN	Indianapolis	—	773,511	-	773,511	1.04%	26.13	
Whitehall Pike	IN	Bloomington	7,207,871	1,014,000	-	1,014,000	1.36%	7.86	Lowe's Home Improvement
Zionsville Walgreens	IN	Indianapolis	3,340,940	426,000	-	426,000	0.57%	29.28	Walgreens

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OPERATING RETAIL PROPERTIES – TABLE II (continued)

Property	State	MSA	Encumbrances	Annualized Base Rent Revenue1	Annualized Ground Lease Revenue	Annualized Total Retail Revenue	Percentage of Annualized Total Retail Revenue	Base Rent Per Leased Owned GLA2	Major Tenants and Non-Owned Anchors3
Oleander Place	NC	Wilmington	—	727,784	80,000	807,784	1.09%	15.98	Whole Foods
Ridge Plaza	NJ	Oak Ridge	14,243,655	1,476,023	-	1,476,023	1.99%	16.06	A&P Grocery, CVS
Eastgate Pavilion	OH	Cincinnati	16,482,000	2,139,270	-	2,139,270	2.88%	9.06	Best Buy, Dick's Sporting Goods, Value City Furniture, PetSmart, DSW
Cornelius Gateway	OR	Portland	—	268,608	-	268,608	0.36%	20.22	FedEx/Kinko’s
Shops at Otty	OR	Portland	—	277,494	136,300	413,794	0.56%	28.19	Wal-Mart (non-owned)
Shoppes at Plaza Green	SC	Greenville	—	2,236,271	-	2,236,271	3.01%	12.07	Bed Bath & Beyond, Christmas Tree Shops, Sears, Party City, Shoe Carnival, AC Moore, Old Navy
Publix at Woodruff	SC	Greenville	—	676,208	-	676,208	0.91%	10.21	Publix
Burlington Coat Factory	TX	San Antonio	—	537,000	-	537,000	0.72%	5.00	Burlington Coat Factory
Cedar Hill Village	TX	Dallas	—	726,156	-	726,156	0.98%	16.94	24 Hour Fitness, JC Penney (non-owned)
Market Street Village	TX	Hurst	—	1,802,597	33,000	1,835,597	2.47%	11.51	Jo-Ann Fabric, Ross, Office Depot, Buy Buy Baby
Plaza at Cedar Hill	TX	Dallas	—	3,655,482	-	3,655,482	4.92%	12.27	Hobby Lobby, Office Max, Ross, Marshalls,

									Sprouts Farmers Market, Toys "R" Us/Babies "R" Us, HMY Roomstore, DSW
Plaza Volente	TX	Austin	27,297,725	2,367,204	110,000	2,477,204	3.33%	15.62	H-E-B Grocery
Sunland Towne Centre	TX	El Paso	24,599,344	2,974,527	115,290	3,089,817	4.16%	10.96	PetSmart, Ross, HMY Roomstore, Kmart, Bed Bath & Beyond, Specs Fine Wines
50th & 12th	WA	Seattle	4,125,671	475,000	-	475,000	0.64%	32.76	Walgreens
		TOTAL	$326,738,983	$71,075,890	$3,240,567	$74,316,457	100%	$12.95	

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1 Annualized Base Rent Revenue represents the contractual rent for December 2012 for each applicable property, multiplied by 12. This table does not include Annualized Base Rent from development property tenants open for business as of December 31, 2012. Excludes tenant reimbursements.

2 Owned GLA represents gross leasable area that is owned by the Company. Total GLA includes Owned GLA, square footage attributable to non-owned anchor space and non-owned structures on ground leases.

Commercial Properties

As of December 31, 2012, we owned interests in two operating commercial properties totaling 0.4 million square feet of NRA and an associated parking garage. The following sets forth more specific information with respect to the Company's commercial properties as of December 31, 2012:

OPERATING COMMERCIAL PROPERTIES

Property	MSA	Year Built/ Renovated	Acquired, Redeveloped or Developed	Encumbrances	Owned NRA	Percentage of Owned NRA Leased	Annualized Base Rent[1]	Percentage of Annualized Commercial Base Rent	Base Rent Per Leased Sq. Ft.	Major Tenants
Indiana										
30 South[2]	Indianapolis	1905/2002	Redeveloped	$20,476,090	300,095	91.9%	$4,841,650	81.3%	$17.57	Indiana Supreme Court, City Securities, 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
Eddy Street Office (part of Eddy Street Commons)[4]	South Bend	2009	Developed	—	81,628	100.0%	1,116,736	18.7%	13.68	University of Notre Dame Offices
			TOTAL	$20,476,090	381,723	93.6%	$5,958,386	100.0%	$16.68	

1 Annualized Base Rent represents the monthly contractual rent for December 2012 for each applicable property, multiplied by 12. Excludes tenant reimbursements.

2 Annualized Base Rent includes $779,507 from the Company and subsidiaries as of December 31, 2012.

3 The garage is managed by a third party.

4 The Company also owns Eddy Street Commons in South Bend, Indiana along with a parking garage that serves a hotel and the office and retail components of the property.

In-Process Development / Redevelopment Projects

In addition to our operating retail properties, as of December 31, 2012, we owned interests in six in-process development and redevelopment projects that are expected to contain 1.3 million square feet of gross leasable area (including non-owned anchor space) upon completion. The following sets forth more specific information with respect to the Company's retail development properties as of December 31, 2012:

Project	Company Ownership %	Project Type	MSA	Encumbrances	Actual/ Projected Opening Date1	Projected Owned GLA2	Projected Total GLA3	Percent of Owned GLA Pre-Leased/ Committed5	Total Estimated Project Cost6	Cost Incurred as of December 31, 2012 6,7	Major Tenants and Non-owned Anchors
Delray Marketplace, FL8	50%	Development	Delray Beach	$43,225,945	Q4 2012	254,686	265,399	80.9%	$95,000	$89,075	Publix, Frank Theatre Grille, Charmi Charlie, Chico's, White House/I Market, Jos. A Bank
Holly Springs Towne Center (formerly New Hill Place), NC – Phase I	100%	Development	Raleigh	8,949,409	Q1 2013	204,936	374,334	85.4%	57,000	38,072	Target (non-ow Dick's Sportin Goods, Marsha Michae PETCO Charmi Charlie, Ulta Salon, Pier 1 Imports
Four Corner Square / Maple Valley, WA	100%	Redevelopment	Seattle	12,625,273	Q1 2013	108,523	118,523	86.5%	23,500	19,827	Do It Best Hardwa Walgree Grocery Outlet

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Rangeline Crossing (formerly The Centre), IN	100%	Redevelopment	Indianapolis	4,014,582	Q2 2013	84,327	84,327	94.5%