

KITE REALTY GROUP TRUST
Form 10-Q
November 06, 2015

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

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 001-32268 (Kite Realty Group Trust)
Commission File Number: 333-202666-01 (Kite Realty Group, L.P.)

Kite Realty Group Trust
Kite Realty Group, L.P.
(Exact Name of Registrant as Specified in its Charter)
Maryland (Kite Realty Group Trust) 11-3715772
Delaware (Kite Realty Group, L.P.) 20-1453863
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

30 S. Meridian Street, Suite 1100
Indianapolis, Indiana 46204
(Address of principal executive offices) (Zip code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Kite Realty Group Trust Yes No Kite Realty Group, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Kite Realty Group Trust Yes No Kite Realty Group, L.P. Yes No

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

Kite Realty Group Trust:

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

Kite Realty Group, L.P.:

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

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

Kite Realty Group Trust Yes No Kite Realty Group, L.P. Yes No

The number of Common Shares of Kite Realty Group Trust outstanding as of October 30, 2015 was 83,323,574 (\$.01 par value).

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2015 of Kite Realty Group Trust, Kite Realty Group, L.P. and its subsidiaries. Unless stated otherwise or the context otherwise requires, references to "Kite Realty Group Trust" or the "Parent Company" mean Kite Realty Group Trust, and references to the "Operating Partnership" mean Kite Realty Group, L.P. and its consolidated subsidiaries. The terms "Company," "we," "us," and "our" refer to the Parent Company and the Operating Partnership collectively, and those entities owned or controlled by the Parent Company and/or the Operating Partnership.

The Operating Partnership is engaged in the ownership and operation, acquisition, development and redevelopment of high-quality neighborhood and community shopping centers in select markets in the United States. The Parent Company is the sole general partner of the Operating Partnership and as of September 30, 2015 owned approximately 97.8% of the common partnership interests in the Operating Partnership ("General Partner Units"). The remaining 2.2% of the common partnership interests ("Limited Partner Units" and, together with the General Partner Units, the "Common Units") are owned by the limited partners.

We believe combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into this single report benefits investors by:

- enhancing investors' understanding of the Parent Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminating duplicative disclosure and providing a more streamlined and readable presentation of information because a substantial portion of the Company's disclosure applies to both the Parent Company and the Operating Partnership; and
- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important to understand the few differences between the Parent Company and the Operating Partnership in the context of how we operate as an interrelated consolidated company. The Parent Company has no material assets or liabilities other than its investment in the Operating Partnership. The Parent Company issues public equity from time to time but does not have any indebtedness as all debt is incurred by the Operating Partnership. In addition, the Parent Company currently does not nor does it intend to guarantee any debt of the Operating Partnership. The Operating Partnership has numerous wholly-owned subsidiaries, and it also owns interests in certain joint ventures. These subsidiaries and joint ventures own and operate retail shopping centers and other real estate assets. The Operating Partnership is structured as a partnership with no publicly-traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for General Partner Units, the Operating Partnership generates the capital required by the business through its operations, its incurrence of indebtedness and the issuance of Limited Partner Units to third parties.

Shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of the Parent Company and those of the Operating Partnership. In order to highlight this and other differences between the Parent Company and the Operating Partnership, there are separate sections in this report, as applicable, that separately discuss the Parent Company and the Operating Partnership, including separate financial statements and separate Exhibit 31 and 32 certifications. In the sections that combine disclosure of the Parent Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the

collective Company.

KITE REALTY GROUP TRUST AND KITE REALTY GROUP, L.P. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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Part I. FINANCIAL INFORMATION

Item 1.

Kite Realty Group Trust
Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and per share data)

	September 30, 2015	December 31, 2014
Assets:		
Investment properties, at cost	\$3,980,886	\$3,732,748
Less: accumulated depreciation	(410,328)	(315,093)
	3,570,558	3,417,655
Cash and cash equivalents	42,951	43,826
Tenant and other receivables, including accrued straight-line rent of \$23,312 and \$18,630, respectively, net of allowance for uncollectible accounts	47,353	48,097
Restricted cash and escrow deposits	15,713	16,171
Deferred costs, net	150,983	159,978
Prepaid and other assets	10,089	8,847
Assets held for sale (see Note 10)	—	179,642
Total Assets	\$3,837,647	\$3,874,216
Liabilities and Equity:		
Mortgage and other indebtedness	\$1,679,843	\$1,554,263
Accounts payable and accrued expenses	90,148	75,150
Deferred revenue and other liabilities	137,554	136,409
Liabilities held for sale (see Note 10)	—	81,164
Total Liabilities	1,907,545	1,846,986
Commitments and contingencies	—	—
Limited partners' interests in Operating Partnership and other redeemable noncontrolling interests	86,957	125,082
Equity:		
Kite Realty Group Trust Shareholders' Equity:		
Preferred Shares, \$.01 par value, 40,000,000 shares authorized, 4,100,000 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively, with a liquidation value of \$102,500	102,500	102,500
Common Shares, \$.01 par value, 225,000,000 shares authorized, 83,323,563 and 83,490,663 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	833	835
Additional paid in capital and other	2,050,915	2,044,425
Accumulated other comprehensive loss	(6,209)	(1,175)
Accumulated deficit	(305,902)	(247,801)
Total Kite Realty Group Trust Shareholders' Equity	1,842,137	1,898,784
Noncontrolling Interests	1,008	3,364
Total Equity	1,843,145	1,902,148
Total Liabilities and Equity	\$3,837,647	\$3,874,216

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Minimum rent	\$66,279	\$69,033	\$196,656	\$131,515
Tenant reimbursements	16,787	17,605	51,891	35,083
Other property related revenue	4,081	1,938	9,163	5,481
Total revenue	87,147	88,576	257,710	172,079
Expenses:				
Property operating	11,994	11,850	36,519	26,057
Real estate taxes	10,045	10,632	29,821	20,048
General, administrative, and other	4,559	3,939	14,131	9,358
Merger and acquisition costs	1,089	19,088	1,550	26,849
Depreciation and amortization	42,549	44,383	124,196	81,559
Total expenses	70,236	89,892	206,217	163,871
Operating income	16,911	(1,316)	51,493	8,208
Interest expense	(13,881)	(15,386)	(40,995)	(30,291)
Income tax expense of taxable REIT subsidiary	(9)	(14)	(134)	(37)
Gain on settlement	—	—	4,520	—
Other expense, net	(60)	(13)	(189)	(119)
Income (loss) from continuing operations	2,961	(16,729)	14,695	(22,239)
Discontinued operations:				
Gain on sale of operating property	—	—	—	3,199
Income from discontinued operations	—	—	—	3,199
Income (loss) before gain on sale of operating properties	2,961	(16,729)	14,695	(19,040)
Gain on sales of operating properties	—	2,749	3,363	6,336
Consolidated net income (loss)	2,961	(13,980)	18,058	(12,704)
Net income attributable to noncontrolling interests	(435)	(304)	(1,626)	(224)
Net income (loss) attributable to Kite Realty Group Trust	\$2,526	\$(14,284)	\$16,432	\$(12,928)
Dividends on preferred shares	(2,114)	(2,114)	(6,342)	(6,342)
Net income (loss) attributable to common shareholders	\$412	\$(16,398)	\$10,090	\$(19,270)
Net income (loss) per common share - basic & diluted:				
Income (loss) from continuing operations attributable to Kite Realty Group Trust common shareholders	\$0.00	\$(0.20)	\$0.12	\$(0.45)
Income from discontinued operations attributable to Kite Realty Group Trust common shareholders	—	—	—	0.06
Net income (loss) attributable to Kite Realty Group Trust common shareholders	\$0.00	\$(0.20)	\$0.12	\$(0.39)
Weighted average common shares outstanding - basic	83,325,074	83,455,900	83,453,660	49,884,469
Weighted average common shares outstanding - diluted	83,433,379	83,718,735	83,566,554	50,145,571

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Dividends declared per common share	\$0.2725	\$0.2600	\$0.8175	\$0.7600
Net income attributable to Kite Realty Group Trust common shareholders:				
Income (loss) from continuing operations	\$412	\$(16,398)	\$10,090	\$(22,366)
Income from discontinued operations	—	—	—	3,096
Net income (loss) attributable to Kite Realty Group Trust common shareholders	\$412	\$(16,398)	\$10,090	\$(19,270)
Consolidated net income (loss)	\$2,961	\$(13,980)	\$18,058	\$(12,704)
Change in fair value of derivatives	(3,436)	2,671	(5,153)	(249)
Total comprehensive (loss) income	(475)	(11,309)	12,905	(12,953)
Comprehensive income attributable to noncontrolling interests	(399)	(400)	(1,507)	(177)
Comprehensive (loss) income attributable to Kite Realty Group Trust	\$(874)	\$(11,709)	\$11,398	\$(13,130)

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

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

	Preferred Shares		Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balances, December 31, 2014	4,100,000	\$102,500	83,490,663	\$835	\$2,044,425	\$ (1,175)	\$ (247,801)	\$1,898,784
Stock compensation activity	—	—	(174,100)	(2)	2,408	—	—	2,406
Other comprehensive loss attributable to Kite Realty Group Trust	—	—	—	—	—	(5,034)	—	(5,034)
Distributions declared to common shareholders	—	—	—	—	—	—	(68,191)	(68,191)
Distributions to preferred shareholders	—	—	—	—	—	—	(6,342)	(6,342)
Net income attributable to Kite Realty Group Trust	—	—	—	—	—	—	16,432	16,432
Acquisition of partners' interests in consolidated joint ventures	—	—	—	—	1,445	—	—	1,445
Exchange of redeemable noncontrolling interests for common shares	—	—	7,000	—	189	—	—	189
Adjustment to redeemable noncontrolling interests	—	—	—	—	2,448	—	—	2,448
Balances, September 30, 2015	4,100,000	\$102,500	83,323,563	\$833	\$2,050,915	\$ (6,209)	\$ (305,902)	\$1,842,137

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

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Kite Realty Group Trust

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income (loss)	\$ 18,058	\$(12,704)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Straight-line rent	(4,408)	(3,351)
Depreciation and amortization	126,580	83,472
Gain on sale of operating properties, net	(3,363)	(9,535)
Provision for credit losses	2,984	1,206
Compensation expense for equity awards	3,239	1,336
Amortization of debt fair value adjustment	(4,641)	(1,663)
Amortization of in-place lease liabilities, net	(2,148)	(3,582)
Changes in assets and liabilities:		
Tenant receivables and other	1,777	(6,811)
Deferred costs and other assets	(7,310)	(5,542)
Accounts payable, accrued expenses, deferred revenue and other liabilities	7,054	(32,258)
Net cash provided by operating activities	137,822	10,568
Cash flows from investing activities:		
Acquisitions of interests in properties	(167,831)	—
Capital expenditures, net	(69,937)	(72,345)
Net proceeds from sales of operating properties	126,460	40,771
Net proceeds from sales of marketable securities acquired from merger	—	18,601
Net cash received from merger	—	108,666
Change in construction payables	1,005	(7,075)
Collection of note receivable	—	542
Payments on seller earnouts	(2,869)	—
Net cash (used in) provided by investing activities	(113,172)	89,160
Cash flows from financing activities:		
Common share issuance proceeds, net of costs	(224)	(1,865)
Purchase of redeemable noncontrolling interests	(33,853)	—
Loan proceeds	640,895	84,207
Loan transaction costs	(2,770)	(3,709)
Loan payments	(553,255)	(131,786)
Distributions paid – common shareholders	(67,191)	(24,953)
Distributions paid - preferred shareholders	(6,342)	(6,342)
Distributions paid – redeemable noncontrolling interests	(2,721)	(1,914)
Distributions to noncontrolling interests	(64)	(287)
Net cash used in financing activities	(25,525)	(86,649)
Net change in cash and cash equivalents	(875)	13,079
Cash and cash equivalents, beginning of period	43,826	18,134
Cash and cash equivalents, end of period	\$42,951	\$31,213

Non-cash investing and financing activities

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Assumption of mortgages upon completion of merger including debt premium of \$33,298	\$—	\$892,909
Properties and other assets added upon completion of merger	—	2,367,600
Marketable securities added upon completion of merger	—	18,602
Assumption of mortgages by buyer upon sale of properties	40,303	—
Assumption of debt in connection with acquisition of Chapel Hill Shopping Center including debt premium of \$223	18,473	—

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

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

	September 30, 2015	December 31, 2014
Assets:		
Investment properties, at cost	\$3,980,886	\$3,732,748
Less: accumulated depreciation	(410,328)	(315,093)
	3,570,558	3,417,655
Cash and cash equivalents	42,951	43,826
Tenant and other receivables, including accrued straight-line rent of \$23,312 and \$18,630, respectively, net of allowance for uncollectible accounts	47,353	48,097
Restricted cash and escrow deposits	15,713	16,171
Deferred costs, net	150,983	159,978
Prepaid and other assets	10,089	8,847
Assets held for sale (see Note 10)	—	179,642
Total Assets	\$3,837,647	\$3,874,216
Liabilities and Equity:		
Mortgage and other indebtedness	\$1,679,843	\$1,554,263
Accounts payable and accrued expenses	90,148	75,150
Deferred revenue and other liabilities	137,554	136,409
Liabilities held for sale (see Note 10)	—	81,164
Total Liabilities	1,907,545	1,846,986
Commitments and contingencies	—	—
Redeemable Limited Partners' and other redeemable noncontrolling interests	86,957	125,082
Partners Equity:		
Parent Company:		
Preferred equity, 4,100,000 units issued and outstanding at September 30, 2015 and December 31, 2014, with a liquidation value of \$102,500	102,500	102,500
Common equity, 83,323,563 and 83,490,663 units issued and outstanding at September 30, 2015 and December 31, 2014, respectively	1,745,846	1,797,459
Accumulated other comprehensive loss	(6,209)	(1,175)
Total Partners Equity	1,842,137	1,898,784
Noncontrolling Interests	1,008	3,364
Total Equity	1,843,145	1,902,148
Total Liabilities and Equity	\$3,837,647	\$3,874,216

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Minimum rent	\$66,279	\$69,033	\$196,656	\$131,515
Tenant reimbursements	16,787	17,605	51,891	35,083
Other property related revenue	4,081	1,938	9,163	5,481
Total revenue	87,147	88,576	257,710	172,079
Expenses:				
Property operating	11,994	11,850	36,519	26,057
Real estate taxes	10,045	10,632	29,821	20,048
General, administrative, and other	4,559	3,939	14,131	9,358
Merger and acquisition costs	1,089	19,088	1,550	26,849
Depreciation and amortization	42,549	44,383	124,196	81,559
Total expenses	70,236	89,892	206,217	163,871
Operating income	16,911	(1,316)	51,493	8,208
Interest expense	(13,881)	(15,386)	(40,995)	(30,291)
Income tax expense of taxable REIT subsidiary	(9)	(14)	(134)	(37)
Gain on settlement	—	—	4,520	—
Other expense, net	(60)	(13)	(189)	(119)
Income (loss) from continuing operations	2,961	(16,729)	14,695	(22,239)
Discontinued operations:				
Gain on sale of operating property	—	—	—	3,199
Income from discontinued operations	—	—	—	3,199
Income (loss) before gain on sale of operating properties	2,961	(16,729)	14,695	(19,040)
Gain on sales of operating properties	—	2,749	3,363	6,336
Consolidated net income (loss)	2,961	(13,980)	18,058	(12,704)
Net income attributable to noncontrolling interests	(410)	(680)	(1,411)	(757)
Distributions on preferred units	(2,114)	(2,114)	(6,342)	(6,342)
Net income (loss) attributable to common unitholders	\$437	\$(16,774)	\$10,305	\$(19,803)
Allocation of net income (loss):				
Limited Partners	\$25	\$(376)	\$215	\$(533)
Parent Company	412	(16,398)	10,090	(19,270)
	\$437	\$(16,774)	\$10,305	\$(19,803)
Net income (loss) per unit - basic & diluted:				
Income (loss) from continuing operations attributable to common unitholders	\$0.00	\$(0.20)	\$0.12	\$(0.45)
Income from discontinued operations attributable to common unitholders	—	—	—	0.06
Net income (loss) attributable to common unitholders	\$0.00	\$(0.20)	\$0.12	\$(0.39)
Weighted average common units outstanding - basic	85,238,537	85,114,237	85,214,390	51,543,952

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Weighted average common units outstanding - diluted	85,346,842	85,377,073	85,327,283	51,805,054
Distributions declared per common unit	\$0.2725	\$0.2600	\$0.8175	\$0.7600
Net income (loss) attributable to common unitholders:				
Income (loss) from continuing operations	\$437	\$(16,774)	\$10,305	\$(23,002)
Income from discontinued operations	—	—	—	3,199
Net income (loss) attributable to common unitholders	\$437	\$(16,774)	\$10,305	\$(19,803)
Consolidated net income (loss)	\$2,961	\$(13,980)	\$18,058	\$(12,704)
Change in fair value of derivatives	(3,436)	2,671	(5,153)	(249)
Total comprehensive (loss) income	(475)	(11,309)	12,905	(12,953)
Comprehensive income attributable to noncontrolling interests	(410)	(680)	(1,411)	(757)
Comprehensive income (loss) attributable to common unitholders	\$(885)	\$(11,989)	\$11,494	\$(13,710)

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

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

	General Partner			Total
	Common Equity	Preferred Equity	Accumulated Other Comprehensive Loss	
Balances, December 31, 2014	\$1,797,459	\$102,500	\$ (1,175)	\$1,898,784
Stock compensation activity	2,406	—	—	2,406
Other comprehensive loss attributable to Parent Company	—	—	(5,034)	(5,034)
Distributions declared to Parent Company	(68,191)	—	—	(68,191)
Distributions to preferred unitholders	—	(6,342)	—	(6,342)
Net income	10,090	6,342	—	16,432
Acquisition of partners' interests in consolidated joint ventures	1,445	—	—	1,445
Conversion of Limited Partner Units to shares of the Parent Company	189	—	—	189
Adjustment to redeemable noncontrolling interests	2,448	—	—	2,448
Balances, September 30, 2015	\$1,745,846	\$102,500	\$ (6,209)	\$1,842,137

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

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income (loss)	\$ 18,058	\$(12,704)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Straight-line rent		