KITE REALTY GROUP TRUST
Form 10-K
March 16, 2010

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, 2009
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

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 o 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. o

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

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 shares held by non-affiliates of the Registrant as the last business day of the Registrant's most recently completed second quarter was $181.6 million based upon the closing price of $2.92 per share on the New York Stock Exchange on such date.

The number of Common Shares outstanding as of March 5, 2010 was 63,186,339 ($.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 4, 2010, 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, 2009

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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

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

We conduct all of our business through our Operating Partnership, of which we are the sole general partner. As of December 31, 2009, we held an approximate 89% interest in our Operating Partnership. Limited partners owned the remaining 11% of the interests in our Operating Partnership at December 31, 2009.

As of December 31, 2009, we owned interests in a portfolio of 51 retail operating properties totaling approximately 7.9 million square feet of gross leasable area (including approximately 2.9 million square feet of non-owned anchor space). Our retail operating portfolio was 90.1% leased as of December 31, 2009 to a diversified retail tenant base, with no single retail tenant accounting for more than 3.3% of our total annualized base rent. In the aggregate, our largest 25 tenants account for approximately 41% of our annualized base rent as of December 31, 2009. See Item 2, "Properties" for a list of our top 25 tenants by annualized base rent.

We also own interests in three commercial (office/industrial) operating properties totaling approximately 0.5 million square feet of net rentable area and an associated parking garage, all located in the state of Indiana. The occupancy of our commercial operating portfolio was 96.2% as of December 31, 2009.

As of December 31, 2009, we also had an interest in seven retail properties in our development and redevelopment pipelines. Upon completion, our development and redevelopment properties are anticipated to have approximately 1.1 million square feet of gross leasable area (including approximately 0.3 million square feet of non-owned anchor space). In addition to our current development and redevelopment pipelines, we have a "shadow" development pipeline which includes land parcels that are undergoing pre-development activities and are in various stages of preparation for construction to commence, including pre-leasing activity and negotiations for third-party financings. As of December 31, 2009, this shadow pipeline consisted of six projects that are expected to contain approximately 2.8 million square feet of total gross leasable area (including non-owned anchor space) upon completion.

In addition, as of December 31, 2009, we owned interests in various land parcels totaling approximately 95 acres. These parcels are classified as "Land held for development" in the accompanying consolidated balance sheets and may be used for future expansion of existing properties, development of new retail or commercial properties or sold to third parties.

Our operating portfolio, current development and redevelopment pipelines and land parcels are located in the states of Florida, Georgia, Illinois, Indiana, New Jersey, North Carolina, Ohio, Oregon, Texas and Washington.

Difficult economic conditions during the last two years have had a negative impact on consumer confidence and spending. This, in turn, is causing segments of the retail industry to be negatively impacted as retailers struggle to sell goods and services. As an owner and developer of community and neighborhood shopping centers, our performance is directly linked to economic conditions in the retail industry in those markets where our operating centers and development properties are located. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further discussion of the current economic conditions and their impact on us.

Significant 2009 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, development, redevelopment and acquisition of well-located community and neighborhood shopping centers. However, as discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," current economic and financial market conditions have created a need for most REITs, including us, to place a significant amount of emphasis on our financing and capital preservation strategy. Therefore, our primary objective recently has been, and in the future will continue to be, the strengthening of our balance sheet, managing of our debt maturities and conservation of cash. We ended the year 2009 with approximately $87 million of combined cash and borrowing capacity on the unsecured revolving credit facility and, as of February 17, 2010, have extended all of our 2010 debt maturities. We will remain focused on 2011 refinancing activity and will continue to aggressively manage our operating portfolio.

During 2009, we successfully completed various financing, refinancing and capital-raising activities. As a result of these actions, we reduced the amount outstanding under our unsecured revolving credit facility to $78 million at December 31, 2009 from $105 million at December 31, 2008 and paid down the balances of various other loans. The significant financing, refinancing and capital raising activities completed during 2009 included the following:

New Financings in 2009

- Permanent financing of $15.4 million was placed on the Eastgate Pavilion operating property in Cincinnati, Ohio, a previously unencumbered property. This variable rate loan bears interest at LIBOR + 295 basis points and matures in April 2012. We simultaneously hedged this loan to fix the interest rate at 4.84% for the full term; and

- A construction loan in the amount of $10.9 million was placed on the Eddy Street Commons development property in South Bend, Indiana to finance the construction of a limited service hotel in which we have a 50% interest. This joint venture entity is unconsolidated in the accompanying consolidated financial statements. The construction loan bears interest at a rate of LIBOR + 315 basis points and matures in August 2014.

Refinancings & Maturity Date Extensions in 2009

- The $8.2 million fixed rate loan on the Bridgewater Crossing operating property in Indianapolis, Indiana was refinanced with a variable rate loan bearing interest at LIBOR + 185 basis points and maturing in June 2013;

- The maturity date of the $31.4 million variable rate construction loan on the Cobblestone Plaza development property in Ft. Lauderdale, Florida was extended to March 2010 at an interest rate of LIBOR + 250 basis points;

- The $4.1 million variable rate loan on the Fishers Station operating property in Indianapolis, Indiana was refinanced at an interest rate of LIBOR + 350 basis points and maturing in June 2011;

- The maturity date of the $9.4 million construction loan on our Delray Marketplace development property in Delray Beach, Florida was extended to June 2011 at an interest rate of LIBOR + 300 basis points;

- The maturity date of the variable rate loan on the $11.9 million Beacon Hill operating property in Crown Point, Indiana was extended to March 2014 at an interest rate of LIBOR + 125 basis points;

- The $15.8 million fixed rate loan on our Ridge Plaza operating property in Oak Ridge, New Jersey was refinanced with a permanent loan in the same amount. This loan has a maturity date of January 2017 and bears interest at a rate of LIBOR + 325 basis points. We simultaneously hedged this loan to fix the interest rate at 6.56% for the full term;

- The maturity date of the $17.8 million variable rate loan on our Tarpon Springs Plaza operating property in Naples, Florida was extended to January 2013 at an interest rate of LIBOR + 325 basis points; and
  - The maturity date of the $14.0 million variable rate loan on our Estero Town Commons operating property in Naples, Florida was extended to January 2013 at an interest rate of LIBOR + 325 basis points.

In addition, in the first quarter of 2010, we completed the following financing activities:

- The maturity date of the $14.9 million variable rate loan on the Shops at Rivers Edge operating property in Indianapolis, Indiana was extended to February 2013 at an interest rate of LIBOR + 400 basis points;
- The maturity date of the $30.9 million variable rate construction loan on the Cobblestone Plaza development property was extended to February 2013 at an interest rate of LIBOR + 350 basis points; and
- The maturity date of the $11.0 million construction loan on the South Elgin Commons property in a suburb of Chicago was extended to September 2013 at an interest rate of LIBOR + 325 basis points.

Construction Financing

- Draws totaling approximately $18.8 million were made on the variable rate construction loan at the Eddy Street Commons development project; and
- We used proceeds from our unsecured revolving credit facility, other borrowings and cash totaling approximately $30.0 million for other development and redevelopment activities.

Repayments of Outstanding Indebtedness

- We used approximately $57 million of proceeds from our May 2009 common share offering to pay down the outstanding balance on our unsecured revolving credit facility;
- We repaid the $11.8 million fixed rate loan on our Boulevard Crossing operating property in Kokomo, Indiana and contributed the related asset to the unsecured revolving credit facility collateral pool; and
- In addition, we partially paid down the balances of various permanent and construction loans in 2009 in connection with the extensions of their respective maturity dates. The aggregate amount of such paydowns was $32.4 million in 2009.

Other Financing-Related Activities

- We utilized our unsecured revolving credit facility to contribute approximately $8.8 million of equity to our Parkside Town Commons unconsolidated joint venture property in Raleigh, North Carolina. Our joint venture partner also made a contribution as a means to reduce the joint venture’s outstanding variable rate debt;
- We placed an interest rate hedge on the $20.0 million variable rate loan maturing in December 2011 on our Glendale Town Center operating property in Indianapolis, Indiana. This hedge fixed the interest rate at 4.40% for the full term; and
- We placed an interest rate hedge on the $19.7 million variable rate loan maturing in December 2011on our Bayport Commons operating property in Oldsmar, Florida. This hedge fixed the interest rate at 4.48% for the full term;

Common Equity Offering

- In May 2009, we completed an offering of 28,750,000 common shares at an offering price of $3.20 per share for net proceeds of approximately $87.5 million. Approximately $57 million of the net proceeds were used to reduce the outstanding balance on our unsecured revolving credit facility. The remaining proceeds were initially retained and a portion subsequently used to retire outstanding indebtedness as described above.

2009 Development and Redevelopment Activities

- In the second quarter of 2009, we completed South Elgin Commons, Phase I, a 45,000 square foot LA Fitness facility located in a suburb of Chicago, Illinois, and transitioned it into our operating portfolio;

- We partially completed the construction of Cobblestone Plaza, a 138,000 square foot neighborhood shopping center located in Ft. Lauderdale, Florida. This property was 73.9% leased or committed as of December 31, 2009 and is anchored by Whole Foods, Staples, and Party City; and

- We substantially completed the construction of the retail and office components of Eddy Street Commons, Phase I, a 465,000 square foot center located in South Bend, Indiana that includes a 300,000 square foot non-owned multi-family component. This project was 72.4% leased or committed as of December 31, 2009 and is anchored by Follett Bookstore and the University of Notre Dame.

- No new development projects were commenced in 2009.

As of December 31, 2009, we had a redevelopment pipeline that included five properties undergoing various stages of redevelopment:

- Bolton Plaza, Jacksonville, Florida. This 173,000 square foot neighborhood shopping center was previously anchored by Wal-Mart. We recently executed a 66,500 square foot lease with Academy Sports & Outdoors to anchor this center and expect this tenant to open during the second half of 2010. We currently estimate the cost of this redevelopment to be approximately $5.7 million;

- Coral Springs Plaza, Boca Raton, Florida. In early 2009, Circuit City declared bankruptcy and vacated this center. We recently executed a 47,000 square foot lease with Toys "R" Us/Babies "R" Us to occupy 100% of this center. We expect this tenant to open during the second half of 2010. We currently estimate the cost of this redevelopment to be approximately $4.5 million;

- Courthouse Shadows, Naples, Florida. In 2008, we transferred this 135,000 square foot neighborhood shopping center from our operating portfolio to our redevelopment pipeline. We intend to modify the existing facade and pylon signage and upgrade the landscaping and lighting. In 2009, Publix purchased the lease of the former anchor tenant and made certain improvements on the space. We currently anticipate our total investment in the redevelopment at Courthouse Shadows will be approximately $2.5 million;

- Four Corner Square, Seattle, Washington. In 2008, we transferred this 29,000 square foot neighborhood shopping center from our operating portfolio to our redevelopment pipeline. In addition to the existing center, we also own an adjacent ten acres of land in our shadow pipeline that may be used as part of the redevelopment. We currently estimate the cost of this redevelopment to be approximately $0.5 million; and

- Shops at Rivers Edge, Indianapolis, Indiana. In 2008, we purchased this 111,000 square foot neighborhood shopping center with the intent to redevelop it. The current anchor tenant's lease at this property expires on March 31, 2010. The tenant may continue to occupy the space for a period of time while the Company markets the space to several potential anchor tenants. We currently estimate the cost of this redevelopment to be approximately $2.5 million which may increase depending on the outcome of current negotiations with potential anchor tenants.

- No new redevelopment projects were commenced in 2009.

2009 Property Dispositions

In 2009, as part of our regular quarterly review, we determined that it was appropriate to write off the net book value on the Galleria Plaza operating property in Dallas, Texas and recognize a non-cash impairment charge of $5.4 million. Our estimated future cash flows, which considered recent negative property-specific events, were anticipated to be insufficient to recover the carrying value due to significant ground lease obligations and expected future required capital expenditures. We conveyed the title to the property to the ground lessor in the fourth quarter of 2009.

2009 Cash Distributions

In 2009, we declared quarterly per share cash distributions for the following periods:

First Quarter	$	0.1525
Second Quarter	$	0.0600
Third Quarter	$	0.0600
Fourth Quarter (paid in January 2010)	$	0.0600
Full Year	$	0.3325

Business Objectives and Strategies

Our primary business objectives are to increase the cash flow and consequently the value 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 where cost effective renovation and expansion programs, combined with effective leasing and management strategies, can combine 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 certain properties to make them more attractive to existing and prospective tenants or to permit additional or more productive uses of the properties;

- Growth Strategy: Using debt and equity capital prudently to redevelop or renovate our existing properties and to selectively acquire and develop additional shopping centers on land parcels that we currently own where we project that investment returns would meet or exceed internal benchmarks for above average returns; and

- Financing and Capital Preservation Strategy: Financing our capital requirements with borrowings under our existing credit facility and newly issued secured debt, internally generated funds and proceeds from selling properties that no longer fit our strategy, investment in strategic joint ventures and by accessing the public securities markets when market conditions permit.

Operating Strategy. Our primary operating strategy is to maximize rents and maintain or increase occupancy levels by attracting and retaining a strong and diverse tenant base. Most of our properties are 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:

- maintaining efficient leasing and property management strategies to emphasize and maximize rent growth and cost-effective facilities;

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

- 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;

- maximizing the occupancy of our existing operating portfolio;

- increasing rental rates upon the renewal of expiring leases or re-leasing space to new tenants while minimizing vacancy to the extent possible; and

- taking advantage of under-utilized land or existing square footage, or reconfiguring properties for better use.

We employed our operating strategy in 2009 in a number of ways, including maintaining a diverse retail tenant mix with no tenant accounting for more than 3.3% of our annualized base rent. See Item 2, “Properties” for a list of our top tenants by gross leasable area and annualized base rent. We also had a renewed focus on tenant leasing in 2009 and, as a part of that focus, we hired a new executive in April 2009 who has substantial industry experience and is dedicated to developing and managing our leasing strategy. This new leasing executive implemented a number of key initiatives to strengthen our overall leasing program, resulting in the execution of 735,000 square feet of new and renewal leases during 2009, which is the most square feet leased in a single year since we became a public company in 2004.

Growth Strategy. While we are focused on conserving capital in the current difficult economic environment, our growth strategy includes the selective deployment of resources to projects that are expected to generate investment returns that meet or exceed our expectations. We intend to implement our investment strategy in a number of ways, including:

- evaluating redevelopment and renovation opportunities that we believe will make our properties more attractive for leasing or re-leasing to tenants at increased rental rates where possible;

- disposing of selected assets that no longer meet our long-term investment criteria and recycling the capital into assets that provide maximum returns and upside potential in desirable markets; and

- selectively pursuing the acquisition of retail properties and portfolios in markets with attractive demographics which we believe can support retail development and therefore attract strong retail tenants.

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

- the expected returns and related risks associated with investments in these potential opportunities 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 redeveloped;

- the price being offered for the property, the current and projected operating performance of the property, the tax consequences of the sale and 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 our existing properties, if any, in the same or nearby markets.

In 2009, we were successful in executing leases for anchor tenants at two properties in our redevelopment portfolio. We signed a lease for a 47,000 square foot combined Toys "R" Us/Babies "R" Us to occupy 100% of our Coral Springs property in Boca Raton, Florida. We also signed a lease for 66,500 square feet with Academy Sports & Outdoors to anchor our Bolton Plaza property in Jacksonville, Florida. We expect both of these tenants to open for business during the last half of 2010.

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 equity through public offerings or private placements, the incurrence of additional indebtedness through secured or unsecured borrowings, investment in real estate joint ventures and the reinvestment of proceeds from the disposition of assets.

Our primary finance and capital strategy is to maintain a strong balance sheet with sufficient flexibility to fund our operating and investment activities in a cost-effective 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 our Company as a whole upon consummation of the refinancing, and the ability of particular properties to generate cash flow to cover expected debt service. As discussed in more detail in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the current market conditions have created a necessity for most REITs, including us, to place a significant emphasis on financing and capital preservation strategies. While these conditions continue, along with the current turmoil in the credit markets, our efforts to strengthen our balance sheet are essential to our business. We intend to implement 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;

- seeking to extend the maturity dates of and/or refinancing our unsecured revolving credit facility and term loan borrowings, which had a combined aggregate balance of $132.8 million at December 31, 2009 and which both mature in 2011. Our unsecured revolving credit facility has a one-year extension option to February 2012 if we are in compliance with the covenants under the related agreement;

- managing our exposure to variable-rate debt through the use of interest rate hedging transactions;
- entering into new project-specific construction loans, property loans, and other borrowings;
- investing in joint venture arrangements in order to access less expensive capital and to mitigate risk; and
- raising additional capital through the issuance of common shares, preferred shares or other securities.

In 2009, we implemented our financing and capital strategy in a number of ways, including issuing 28,750,000 common shares at an offering price of $3.20 per common share for net proceeds of $87.5 million. The majority of the net proceeds from this offering were used to repay the borrowings under our unsecured revolving credit facility and pay down other forms of indebtedness. In addition, as discussed above in “Significant 2009 Activities”, we have extended or refinanced all of our 2009 and 2010 debt maturities. We were also able to reduce the amount outstanding under our unsecured revolving credit facility to $78 million, net of additional borrowings, at December 31, 2009 from $105 million at December 31, 2008.

Business Segments

Our principal business is the ownership, operation, acquisition, development and construction of high-quality neighborhood and community shopping centers in selected markets in the United States. We have aligned our operations into two business segments: (1) real estate operation and development, and (2) construction and advisory services. See Note 14 to the accompanying consolidated financial statements for information on our two business segments and the reconciliation of total segment revenues to total revenues, total segment operating income to operating income, total segment net income to consolidated net income, and total segment assets to total assets for the years ended December 31, 2009, 2008 and 2007.

Competition

The United States commercial real estate market continues to be highly competitive. We face competition from institutional investors, other REITs, and owner-operators engaged in the development, acquisition, ownership and leasing of shopping centers as well as from numerous local, regional and national real estate developers and owners in each of our markets. Some of our competitors may have more resources than we do.

We face significant competition in our efforts to lease available space to prospective tenants at our operating, development and redevelopment properties. Generally, the challenging economic conditions have caused a greater than normal amount of space to be available for lease. The nature of the competition for tenants varies depending upon the characteristics of each local market in which we own and manage 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 and appearance 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

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. We are not currently aware of any environmental issues that may materially affect the operation of any of our properties.

Insurance

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

Offices

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

Employees

As of December 31, 2009, we had 90 full-time employees. Of these employees, 69 were “home office” executive and administrative personnel and 21 were on-site construction, facilities management and maintenance 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

Ongoing challenging conditions in the United States and global economy, the challenges being faced by our retail tenants and non-owned anchor tenants and the decrease in demand for retail space may have a material adverse affect on our financial condition and results of operations.

We are susceptible to adverse economic developments in the United States. The economy of the United States continued to be very challenged during 2009 and early 2010, and these conditions may persist into the future. There can be no assurance that government responses to disruptions in the economy and in the financial markets will restore consumer confidence. General economic factors that are beyond our control, including, but not limited to, recessions, decreases in consumer confidence, reductions in consumer credit availability, increasing consumer debt levels, rising energy costs, 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 us rent 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 seek downward rental adjustment to 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, state 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.

In addition, 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 catalogues or 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.

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. For example, in the third quarter of 2009, we determined to write off the net book value on the Galleria Plaza operating property in Dallas, Texas, and recognized a non-cash impairment charge of $5.4 million.

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 was in a recession during 2009, and challenging economic conditions have continued into 2010. Similarly, the specific markets in which we operate continue to face very challenging economic conditions that will likely persist into the future. In particular, as of December 31, 2009, approximately 40% of our owned square footage and approximately 39% of our total annualized base rent is located in Indiana, approximately 21% of our owned square footage and approximately 22% of our total annualized base rent is located in Florida, and approximately 20% of our owned square footage and approximately 17% of our total annualized base rent is 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, rising unemployment rates and home foreclosure rates. Continued adverse economic or real estate trends in Indiana, Florida, Texas, or the surrounding regions, or any continued 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.

Ongoing 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.

Over the last few years, the United States financial and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many financial instruments to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing.

Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for development of our properties and other purposes at reasonable terms, or at all, which may materially adversely affect our business. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, we may be unable to obtain permanent financing on development projects we financed with construction loans or mezzanine debt. 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. In addition, 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. 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 may have a material adverse effect on the market value of our common stock and have other adverse effects on our business.

If our tenants are unable to secure financing necessary to continue to operate 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 their businesses. As discussed above, the United States financial and credit markets continue to experience significant liquidity disruptions, resulting in the unavailability of financing for many businesses. 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.

We had approximately $658 million of consolidated indebtedness outstanding as of December 31, 2009, 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 approximately $658 million of consolidated outstanding indebtedness as of December 31, 2009. Approximately $250 million of this debt is scheduled to mature in 2011. At December 31, 2009, approximately $356 million of our debt bore interest at variable rates (approximately $136 million when reduced by our $220 million of interest rate swaps for fixed interest rates). Interest rates are currently low relative to historical levels and may increase significantly in the future. If our interest expense increased significantly, it could materially adversely affect our results of operations. For example, if market rates of interest on our variable rate debt outstanding as of December 31, 2009 increased by 1%, the increase in interest expense on our variable rate debt would decrease future cash flows by approximately $1.4 million annually.

We also intend to incur additional debt in connection with projects in our current development, redevelopment and shadow development pipelines, as well as 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, 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 acquisitions in the future.

Agreements with lenders supporting our unsecured revolving credit facility, unsecured term loan 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, unsecured term loan and various other debt agreements contain certain Events of Default which include, but are not limited to, failure to make principal or interest payments when due, failure to perform or observe any term, covenant or condition contained in the agreements, failure to maintain certain financial and operating ratios and other criteria, misrepresentations 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. In addition, certain of our permanent and construction 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, which could allow the lending institutions to accelerate the amount due under the loans.

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

As of December 31, 2009, a significant amount of our indebtedness was secured by our real estate assets. If a property or group of properties is mortgaged to secure payment of debt and we are unable to meet mortgage payments, the holder of the mortgage or lender could foreclose on the property, resulting in the loss of our investment. Also, certain of these 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.

We are subject to risks associated with hedging agreements.

We use a combination of interest rate protection agreements, including interest rate swaps and locks, to manage risk associated with interest rate volatility. This may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. 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 ability to generate substantial revenues from our properties. Periods of economic slowdown or recession (including the current challenging economic conditions), 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 ability to satisfy our debt service obligations and to make distributions to our 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:

- adverse changes in the national, regional and local economic climate, particularly in: Indiana, where approximately 40% of our owned square footage and 39% of our total annualized base rent is located; Florida, where approximately 21% of our owned square footage and 22% of our total annualized base rent is located; and Texas, where approximately 20% of our owned square footage and 17% of our total annualized base rent is located;
- tenant bankruptcies;
- local oversupply, increased competition or reduction in demand for space;
- inability to collect rent from tenants, or having to provide significant tenant concessions;
- 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-let 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.

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 such as what we are currently experiencing. As a result, our tenants may delay lease commencements, decline to extend or renew leases upon expiration, fail to make rental payments when due, close a number of stores or declare bankruptcy. Any of these actions could result in the termination of the tenant's leases and the loss of rental income attributable to the terminated leases. In addition, lease terminations by a major tenant or non-owned anchor or a failure by that major tenant or non-owned anchor to occupy the premises could result in lease terminations or reductions in rent by other tenants in the same shopping centers 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, 2009, the five largest tenants in our operating portfolio in terms of annualized base rent were Publix, PetSmart, Lowe's Home Improvement, Ross Stores and Dick's Sporting Goods, representing 3.3%, 2.9%, 2.5%, 2.4%, and 2.3%, respectively, of our total annualized base rent.

We face potential material adverse effects from increasing numbers of tenant bankruptcies, and we may be unable to collect balances due from any tenant bankruptcy.

Bankruptcy filings by our retail tenants occur from time to time. Such bankruptcies may increase in times of economic uncertainty such as what we are currently experiencing. The number of bankruptcies among United States companies increased in 2009 and current economic conditions suggest this trend could continue. Similarly, bankruptcies of tenants renting space at properties in our portfolio continue to be well above historical levels. We cannot make any assurance that any tenant who files for bankruptcy protection will continue to pay us rent. A bankruptcy filing by or relating to one of our tenants or a lease guarantor would bar all efforts by us to collect pre-bankruptcy debts from that tenant or the lease guarantor, or their property, unless we receive an order permitting us to do so from the bankruptcy court. A tenant or lease guarantor bankruptcy could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any unsecured claim we hold may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, it is likely that we will recover substantially less than the full value of any unsecured claims we hold from a tenant in bankruptcy.

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

Our financial covenants may restrict our operating and acquisition activities.

Our unsecured revolving credit facility and unsecured term loan contain certain financial and operating covenants, including, among other things, certain coverage ratios, as well as limitations on our ability to incur debt, make dividend payments, sell all or substantially all of our assets and engage in mergers and consolidations and certain acquisitions. These covenants may restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of the financial covenants could cause an event of default under and/or accelerate some or all of our indebtedness, which could have a material adverse effect on us. We are closely monitoring all of our debt covenants. Maintaining our covenant compliance is an integral aspect of our capital decision making.

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, 2009, we owned eight of our operating properties through joint ventures. For the twelve months ended December 31, 2009, the eight properties represented approximately 10.5% of our annualized base rent. In addition, one of the properties and a component of another property in our current development pipeline and two properties in our shadow pipeline are currently owned through joint ventures, two of which are accounted for under the equity method as of December 31, 2009 as we do not exercise requisite control for consolidation treatment. We have also entered into an agreement with Prudential Real Estate Investors to pursue joint venture opportunities for the development and selected acquisition of community shopping centers in the United States. These joint ventures involve risks not present with respect to our wholly owned properties, including the following:

- we may share decision-making authority with our joint venture partners regarding major decisions affecting the ownership or operation of the joint venture and the joint venture property, such as the sale of the property or the making of additional capital contributions for the benefit of the property, which may prevent us from taking actions that are opposed by our joint venture partners;

- prior consent of our joint venture partners may be required for a sale or transfer to a third party of our interests in the joint venture, which restricts our ability to dispose of our interest in the joint venture;
- our joint venture partners might become bankrupt or fail to fund their share of required capital contributions, which may delay construction or development of a property or increase our financial commitment to the joint venture;

- our joint venture partners may have business interests or goals with respect to the property that conflict with our business interests and goals, which could increase the likelihood of disputes regarding the ownership, management or disposition of the property;

- disputes may develop with our joint venture partners over decisions affecting the property or the joint venture, which may result in litigation or arbitration that would increase our expenses and distract our officers and/or trustees from focusing their time and effort on our business, and possibly disrupt the day-to-day operations of the property 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 intend 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-let space as leases expire, require us to undertake unbudgeted capital improvements, or impede our ability to make future developments or acquisitions or increase the cost of these developments or acquisitions.

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 submarkets in which our properties are located, but which have greater capital resources. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. 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. As of December 31, 2009, leases were scheduled to expire on a total of approximately 5.9% of the space at our properties in 2010. 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 unbudgeted 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 shareholder dilution.

We have two properties in our current development pipeline and six properties in our shadow pipeline. New developments and 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;

- financing risks;

- the failure to meet anticipated occupancy or rent levels;

- failure to receive required zoning, occupancy, land use and other governmental permits and authorizations and changes in applicable zoning and land use laws; and
  - the consent of third parties such as tenants, mortgage lenders and joint venture partners may be required, and those consents may be difficult to obtain or be withheld.

In addition, if a project is delayed 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. In addition, the issuance of equity securities as consideration for any acquisitions could be substantially 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 five properties in our redevelopment pipeline. 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.

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. In connection with our formation at the time of our 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 approximately 18% of our annualized base rent in the aggregate as of December 31, 2009. These six properties are International Speedway Square, Shops at Eagle Creek, Whitehall Pike, Ridge Plaza Shopping Center, 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 in adequate amounts 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, 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 are not necessarily reduced 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. As of December 31, 2009, our retail operating portfolio was approximately 90% leased compared to approximately 91% as of December 31, 2008. 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.

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.

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. 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.

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

The stock markets (including The New York Stock Exchange, or the "NYSE," on which we list our common shares) have experienced significant price and volume fluctuations. The market price of our common shares could be similarly volatile, and investors in our common 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;
- speculation in the press or investment community;
- actions by institutional shareholders or hedge funds;
- changes in accounting principles;
- terrorist acts; and
- general market conditions, including factors unrelated to our performance.

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

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, 2009, we had outstanding 63,062,083 common shares. Of these shares, approximately 62,416,712 are freely tradable, and the remainder of which are mostly held by our "affiliates," as that term is defined by Rule 144 under the Securities Act. In addition, 7,978,498 units of our Operating Partnership are owned by certain of 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 in August 2005 to register 9,115,149 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.

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 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 preferred shares with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price of our shares. In addition, any preferred shares that we issue likely would rank senior to our common shares with respect to payment of distributions, in which case we could not pay any distributions on our common shares until full distributions were paid with respect to such preferred shares.

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

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.

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

Certain of our officers and members of our Board of Trustees 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 with each of our executive officers that provided for a term that ended in December 2009, with automatic one-year renewals unless either we or the officer elects not to renew the agreement. These agreements were automatically renewed for our three executive officers through December 31, 2010. 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 will be required to distribute to our shareholders each year at least 90% of our net taxable income excluding net capital gains. In order to eliminate federal income tax, we will be required to distribute annually 100% of our net taxable income, including capital gains. Partly because of these distribution requirements, we will 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. Our access to third-party sources of capital depends on a number of things, including the market’s perception of our growth potential and our current and potential future earnings and our ability to qualify as a REIT for federal income tax purposes.

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 no 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. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist under common law. Accordingly, in the event that actions taken in good faith by any of our trustees or officers impede the performance of our company, our shareholders’ ability to recover damages from such trustee or officer will be limited.

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.

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 (excluding 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.

We may in the future choose to pay dividends in our own common shares, in which case shareholders may be required to pay income taxes in excess of the cash dividends they receive.

We may in the future distribute taxable dividends that are payable partly in cash and partly in our common shares. Under existing IRS guidance with respect to taxable years ending on or before December 31, 2011, up to 90% of such a dividend could be payable in our common shares. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes, regardless of whether such shareholder receives cash, REIT shares or a combination of cash and REIT shares. As a result, a shareholder may be required to pay income tax with respect to such dividends in excess of the cash dividend. If a shareholder sells the REIT shares it receives in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, if the market value of our shares decreases following the distribution. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to dividends paid in our common shares. In addition, if a significant number of our shareholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common shares.

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

The maximum U.S. federal income tax rate applicable to income from "qualified dividends" payable to U.S. shareholders that are individuals, trusts and estates has been reduced by legislation to 15% (through 2010). Unlike dividends received from a corporation that is not a REIT, the Company's distributions to individual shareholders generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

ITEM 1.B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Retail Operating Properties

As of December 31, 2009, we owned interests in a portfolio of 51 retail operating properties totaling approximately 7.9 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, 2009:

OPERATING RETAIL PROPERTIES - TABLE I

Property[1]	State	MSA	Year Built/Renovated	Year Added to Operating Portfolio	Acquired, Redeveloped, or Developed	Total GLA[2]	Owned GLA[2]	Percentage of Owned GLA Leased[3]
Bayport Commons[6]	FL	Oldsmar	2008	2008	Developed	268,556	97,112	90.2%
Estero Town Commons[6]	FL	Naples	2006	2007	Developed	206,600	25,631	69.5%
Indian River Square	FL	Vero Beach	1997/2004	2005	Acquired	379,246	144,246	97.6%
International Speedway Square	FL	Daytona	1999	1999	Developed	242,995	229,995	98.3%
King's Lake Square	FL	Naples	1986	2003	Acquired	85,497	85,497	92.0%
Pine Ridge Crossing	FL	Naples	1993	2006	Acquired	258,874	105,515	95.4%
Riverchase Plaza	FL	Naples	1991/2001	2006	Acquired	78,380	78,380	100.0%
Shops at Eagle Creek	FL	Naples	1983	2003	Redeveloped	72,271	72,271	55.2%
Tarpon Springs Plaza	FL	Naples	2007	2007	Developed	276,346	82,547	93.3%
Wal-Mart Plaza	FL	Gainesville	1970	2004	Acquired	177,826	177,826	98.0%
Waterford Lakes Village	FL	Orlando	1997	2004	Acquired	77,948	77,948	92.6%
Kedron Village	GA	Atlanta	2006	2006	Developed	282,125	157,409	89.4%
Publix at Acworth	GA	Atlanta	1996	2004	Acquired	69,628	69,628	98.3%
The Centre at Panola	GA	Atlanta	2001	2004	Acquired	73,079	73,079	100.0%
Fox Lake Crossing	IL	Chicago	2002	2005	Acquired	99,072	99,072	81.4%
Naperville Marketplace	IL	Chicago	2008	2008	Developed	169,600	83,758	89.6%
South Elgin Commons	IL	Chicago	2009	2009	Developed	45,000	45,000	100.0%

50 South Morton	IN	Indianapolis	1999	1999	Developed	2,000	2,000	100.0%
54th & College	IN	Indianapolis	2008	2008	Developed	20,100	—	*
Beacon Hill6	IN	Crown Point	2006	2007	Developed	127,821	57,191	50.4%
Boulevard Crossing	IN	Kokomo	2004	2004	Developed	213,696	123,696	87.0%
Bridgewater Marketplace	IN	Indianapolis	2008	2008	Developed	50,820	25,975	53.1%
Cool Creek Commons	IN	Indianapolis	2005	2005	Developed	137,107	124,578	98.6%
Fishers Station4	IN	Indianapolis	1989	2004	Acquired	114,457	114,457	75.2%
Geist Pavilion	IN	Indianapolis	2006	2006	Developed	64,114	64,114	83.6%
Glendale Town Center	IN	Indianapolis	1958/2008	2008	Redeveloped	685,827	403,198	94.1%
Greyhound Commons	IN	Indianapolis	2005	2005	Developed	153,187	—	*
Hamilton Crossing Centre	IN	Indianapolis	1999	2004	Acquired	87,424	82,424	92.3%
Martinsville Shops	IN	Martinsville	2005	2005	Developed	10,986	10,986	58.2%
Red Bank Commons	IN	Evansville	2005	2006	Developed	324,308	34,308	74.2%
Stoney Creek Commons	IN	Indianapolis	2000	2000	Developed	189,527	49,330	100.0%
The Centre5	IN	Indianapolis	1986	1986	Developed	80,689	80,689	96.5%
The Corner	IN	Indianapolis	1984/2003	1984	Developed	42,612	42,612	88.4%
Traders Point	IN	Indianapolis	2005	2005	Developed	348,835	279,674	98.2%
Traders Point II	IN	Indianapolis	2005	2005	Developed	46,600	46,600	54.5%
Whitehall Pike	IN	Bloomington	1999	1999	Developed	128,997	128,997	100.0%
Zionsville Place	IN	Indianapolis	2006	2006	Developed	12,400	12,400	100.0%
Ridge Plaza	NJ	Oak Ridge	2002	2003	Acquired	115,063	115,063	82.6%
Eastgate Pavilion	OH	Cincinnati	1995	2004	Acquired	236,230	236,230	100.0%
Cornelius Gateway6	OR	Portland	2006	2007	Developed	35,800	21,324	62.3%
Shops at Otty7	OR	Portland	2004	2004	Developed	154,845	9,845	100.0%
Burlington Coat Factory8	TX	San Antonio	1992/2000	2000	Redeveloped	107,400	107,400	100.0%
Cedar Hill Village	TX	Dallas	2002	2004	Acquired	139,092	44,262	87.7%
Market Street Village	TX	Hurst	1970/2004	2005	Acquired	163,625	156,625	77.6%
Plaza at Cedar Hill	TX	Dallas	2000	2004	Acquired	299,847	299,847	79.2%
Plaza Volente	TX	Austin	2004	2005	Acquired	160,333	156,333	85.1%
	TX	Dallas	2002	2002	Developed	142,539	27,539	92.5%

Preston Commons								
Sunland Towne Centre	TX	El Paso	1996	2004	Acquired	312,450	307,474	91.2%
50th & 12th	WA	Seattle	2004	2004	Developed	14,500	14,500	100.0%
Gateway Shopping Center9	WA	Seattle	2008	2008	Developed	285,200	99,444	91.9%
Sandifur Plaza6	WA	Pasco	2008	2008	Developed	12,552	12,552	82.5%
					TOTAL	7,884,026	4,996,581	90.1%

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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/NRA leased as of December 31, 2009, 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 $96,000. All remaining cash flow is distributed to the Company.
5	The Company owns a 60% interest in this property through a joint venture with a third party that manages the property.
6	The Company owns and manages the following properties through joint ventures with third parties: Bayport Commons (60%); Beacon Hill (50%); Cornelius Gateway (80%); Estero Town Commons (40%); and Sandifur Plaza (95%).
7	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.
8	The Company does not own the land at this property. It has leased the land pursuant to a ground lease that expires in 2012. The Company has six five-year renewal options and a right of first refusal to purchase the land.
9	The Company owns a 50% interest in Gateway Shopping Center through a joint venture with a third party. The joint venture partner and manages the property.

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OPERATING RETAIL PROPERTIES – TABLE II

Property	State	MSA	Encumbrances	Annualized Base Rent Revenue[1]	Annualized Ground Lease Revenue	Annualized Total Retail Revenue	Percentage of Annualized Total Retail Revenue	Base Rent Per Leased Owned GLA[2]	Major Tenants and Non-Owned Anchors[3]
Bayport Commons	FL	Tampa	$20,078,916	$1,592,840	$ —	$1,592,840	2.65%	$18.18	Petsmart, Best Buy, Michaels
Estero Town Commons[4]	FL	Naples	10,500,000	535,225	750,000	1,285,225	2.14%	30.05	Lowe's Home Improvement, Mattress Giant
Indian River Square	FL	Vero Beach	13,216,389	1,442,184	—	1,442,184	2.40%	10.25	Beall's, Target (non-owned), Lowe's Home Improvement (non-owned), Office Depot
International Speedway Square	FL	Daytona	18,596,954	2,359,439	394,643	2,754,082	4.58%	9.84	Bed, Bath & Beyond, Stein Mart, Old Navy, Staples, Michaels, Dick’s Sporting Goods
King's Lake Square	FL	Naples	—	1,051,239	—	1,051,239	1.75%	13.36	Publix, Retro Fitness
Pine Ridge Crossing	FL	Naples	17,500,000	1,506,599	—	1,506,599	2.51%	14.96	Publix, Target (non-owned), Beall's (non-owned)
Riverchase Plaza	FL	Naples	10,500,000	1,122,326	—	1,122,326	1.87%	14.32	Publix
Shops at Eagle Creek	FL	Naples	—	649,979	—	649,979	1.08%	16.29	Staples, Lowe’s (non-owned)
Tarpon Springs Plaza	FL	Naples	14,000,000	1,687,456	228,820	1,916,276	3.19%	21.91	Cost Plus, AC Moore, Staples
Wal-Mart Plaza	FL	Gainesville	—	954,704	—	954,704	1.59%	5.48	Books-A-Million, Save-A-Lot, Wal-Mart
Waterford Lakes Village	FL	Orlando	—	846,958	—	846,958	1.41%	11.74	Winn-Dixie
Kedron Village	GA	Atlanta	29,700,000	2,391,490	—	2,391,490	3.98%	16.99	Target (non-owned), Bed Bath &

									Beyond, Ross Dress for Less, PETCO
Publix at Acworth	GA	Atlanta	—	756,987	—	756,987	1.26%	11.06	Publix
The Centre at Panola	GA	Atlanta	3,658,067	881,669	—	881,669	1.47%	12.06	Publix
Fox Lake Crossing	IL	Chicago	11,288,753	1,117,501	—	1,117,501	1.86%	13.85	Dominick's Finer Foods
Naperville Marketplace	IL	Chicago	—	973,392	—	973,392	1.62%	12.97	TJ Maxx, PetSmart
South Elgin Commons	IL	Chicago	11,063,419	843,750	—	843,750	1.40%	18.75	LA Fitness
50 South Morton	IN	Indianapolis	—	114,000	—	114,000	0.19%	57.00	
54th & College	IN	Indianapolis	—	—	260,000	260,000	0.43%	—	The Fresh Market (non-owned)
Beacon Hill	IN	Crown Point	7,565,349	518,021	—	518,021	0.86%	17.97	Strack & VanTill (non-owned)
Boulevard Crossing	IN	Kokomo	—	1,478,142	—	1,478,142	2.46%	13.73	PETCO, TJ Maxx, Kohl's (non-owned)
Bridgewater Marketplace	IN	Indianapolis	7,000,000	248,597	—	248,597	0.41%	18.01	Walgreens (non-owned)
Cool Creek Commons	IN	Indianapolis	17,862,709	2,008,539	—	2,008,539	3.34%	16.35	The Fresh Market, Stein Mart, Cardinal Fitness
Fishers Station	IN	Indianapolis	3,937,444	1,000,657	—	1,000,657	1.67%	11.63	Marsh Supermarkets
Geist Pavilion	IN	Indianapolis	11,125,000	920,342	—	920,342	1.53%	17.17	Partytree Superstore, Ace Hardware
Glendale Town Center	IN	Indianapolis							