



Kimco Realty Corporation



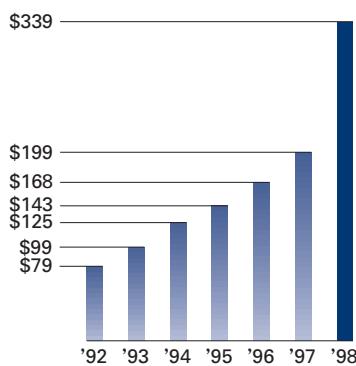
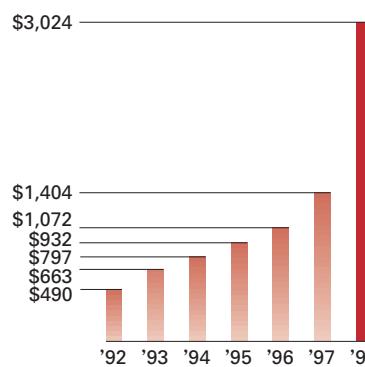
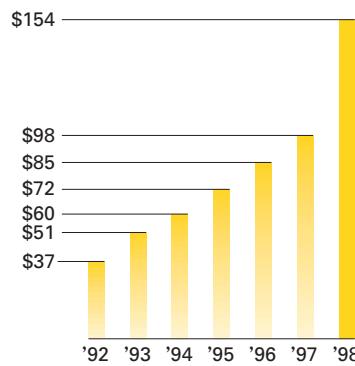
I N C O M E P L U S G R O W T H

Kimco Realty Corporation, a publicly-traded real estate investment trust ("REIT"), owns and operates the nation's largest portfolio of neighborhood and community shopping centers (measured by gross leasable area) with interests in 440 properties comprising approximately 57.2 million square feet of leasable area in 40 states. The Company also manages an additional 27 properties comprising approximately 3.3 million square feet of leasable area. Since incorporation in 1966, the Company has specialized in the acquisition, development and management of well-located centers with strong growth potential. Self-administered and self-managed, the Company's focus is to increase the cash flow and enhance the value of its shopping center properties through strategic re-tenanting, redevelopment, renovation and expansion, and to make selective acquisitions of neighborhood and community shopping centers which have below market-rate leases or other cash flow growth potential. The Company will consider investments outside of its mainstream neighborhood and community shopping center business and in geographic markets where it does not presently operate should suitable opportunities arise. The Company's common shares are traded on the New York Stock Exchange under the symbol KIM.

S T O C K P R I C E A N D D I V I D E N D I N F O R M A T I O N

Period	Stock Price		Dividends Per Common Share ⁽¹⁾
	High	Low	
1998:			
First Quarter	\$35.94	\$33.44	.48
Second Quarter	\$41.00	\$34.88	.48
Third Quarter	\$41.63	\$34.75	.48
Fourth Quarter	\$40.25	\$33.75	.53
1997:			
First Quarter	\$34.63	\$31.75	.43
Second Quarter	\$33.38	\$30.25	.43
Third Quarter	\$36.19	\$31.75	.43
Fourth Quarter	\$35.50	\$30.50	.43

(1) The Company has determined that all dividends paid to its common and preferred stockholders during calendar year 1998 represent ordinary dividend income.

Revenues from Rental Property
(In millions)Real Estate Assets,
Before Depreciation
(In millions)Funds from Operations
(In millions)



Michael J. Flynn, *President* Milton Cooper,
Chairman of the Board

DEAR FELLOW SHAREHOLDERS:

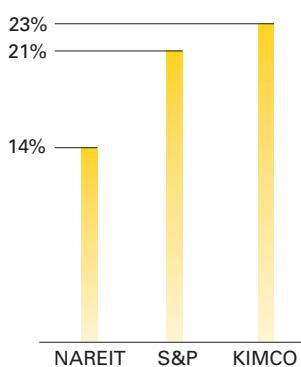
1998 was a record-breaking year for Kimco. As a result of the efforts of an extraordinary team of people, Kimco this year more than doubled its asset base, increased its overall square footage by more than 16 million, and extended its operations across the country into a total of 40 states, to become America's first truly national neighborhood and community shopping center REIT. Mike Flynn, our President and Chief Operating Officer, has been a great partner to me in our growth and deserves a lot of the credit for Kimco's outstanding accomplishments in 1998. He will present the details of the year's business activity in his letter following mine, but permit me here to offer some more general thoughts on where we've been, where we are, and where we're headed.

Kimco has been delivering stable income plus growth since we became a public company in 1991. Our Funds from Operations ("FFO"), on a per share basis, has



grown at an average annual rate in excess of 10%, in line with our commitment to steadily increase shareholder value. And, as a glance at the chart will show you, the compound annual return on our Common Stock since our IPO has exceeded all expectations. In October 1998, we increased our quarterly dividend by almost 19%, from \$.48 per share to \$.57 per share. At our last Board meeting we increased our dividend again, to \$.60 per share. We now pay out to our investors double what they received when dividend payments began in 1992. We have come a very long way, and it feels almost boastful to catalogue all we've done, as though listing all our accomplishments in one place amounts to hubris. But as Dizzy Dean of the St. Louis Cardinals once said, if it's true, it ain't bragging.

And now here we are. Kimco enters the final year of the twentieth century with the nation's largest portfolio

Compound Annual Return
Since IPO*

**Return on investment including reinvestment of dividends from November 20, 1991 through December 31, 1998.*

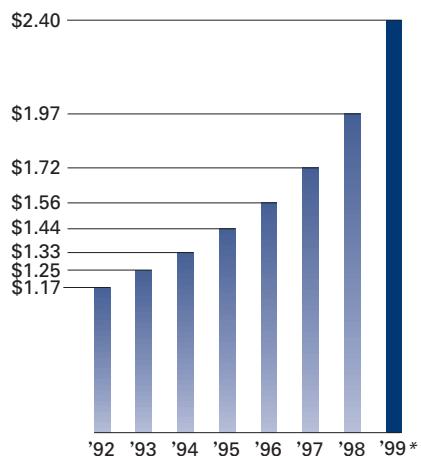
of neighborhood and community shopping centers, including interests today in 440 properties in 40 states. The properties we own amount to 57 million square feet of leasable area, and we manage an additional 27 properties totaling over 3 million square feet. Our merger with the Price REIT has given us unparalleled geographical diversity, providing access to major metropolitan markets in every region of the country. Our tenant base is also wonderfully diverse, made up of an all-star list of national and regional retailers with strong credit and nationwide name recognition.

Our success comes not by accident but as the careful product of business principles that have remained firmly in place since my friend Martin Kimmel and I founded Kimco in the 1950s. We invest in properties that are undervalued assets, where we know we will capitalize on the margin between the price at which we buy the property and the price at which we can lease it. The average rent on properties in our portfolio remains below market, providing us with significant upside potential, and we are constantly on the lookout for new opportunities to acquire undervalued property.

We also are certain of the inherent value of land and buildings. We don't have machinery and equipment that faces technological obsolescence, we don't have

vast inventories of merchandise that liquidates at cents on the dollar, and our stock doesn't trade at 30 to 40 times our earnings on speculation of future profit. What we do have is a lot of buildings and a tremendous amount of land, under and around our shopping centers. In the retail shopping center business, you have to set aside a majority of the land at each shopping center for parking, so that the land Kimco actually owns is at least four times the number we report as our total gross leasable area for fee-owned properties. There are always means of turning land and buildings into profit, and we have people with the experience and creativity to design innovative strategies for maximizing the property we own. To loosely paraphrase Gerald O'Hara's words to his daughter Scarlett; let the markets do what they may—there is always value in real estate.

Where do we go from here? There are so many opportunities. We have a strong acquisitions program, and we will continue to scour the country for properties with below-market rents that we can acquire and turn into profit, as we did in our Venture transactions this year. We are also skilled developers with a long record of experience; we have a number of ground-up projects in the works now as well as plans for others,



*Based on current dividend on an annualized basis.

including strategic redevelopments and expansions of our existing properties. In short, we will continue to focus on areas where we have established expertise over our more than four decades in business: ownership, acquisition, development, and operation of neighborhood and community shopping centers, but now with more potential for growth than ever because of our expanded reach into new markets and geographic regions. We grow cautiously. As we move forward we will commit our skill to projects that allow us to continue growing, without betting the farm.

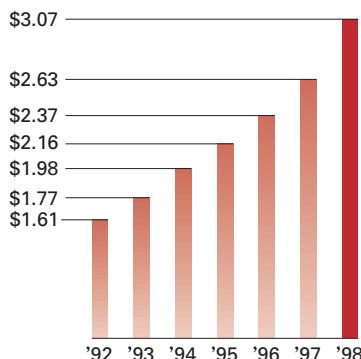
Here I want to reiterate something I have known for many years: in order to maintain growth, it is vital to have constant and uninterrupted access to capital. You must have the financial reserves to keep you in the batter's box, ready at any moment to step up to the plate and throw all your talent and creativity into swing when opportunities arise. For us, this means a portfolio of over 300 unencumbered properties that can be easily financed or sold and a strong balance sheet characterized by low debt.

We have discovered an additional way to provide constant access to capital. Kimco Income REIT, or KIR, goes into operation this year as an assembly of high-quality retail properties with long-term leases and

national credit tenants, which we are financing with non-recourse mortgages at relatively high leverage. We will invest in KIR by contributing properties from our own portfolio that match the particular requirements of this new entity. The strategy, simply put, is to assemble an investment vehicle which will collect capital alongside, but separate from, Kimco.

We know that, to an investor, high leverage invariably signals risk, but in this case the very opposite is true: KIR has been created expressly to guard against risk and uncertainty. Properties included in KIR are generally occupied by nationally known credit-quality tenants with long-term leases and very secure positions within their market, giving KIR characteristics similar to a stable long-term bond. Leverage is risky when cash flows are highly variable and unpredictable, but the properties included in KIR have been selected because of their extreme resistance to dips in the market and swings in income. Moreover, leverage in this case amounts to a conservative strategy, because non-recourse mortgages allow us to transfer the risk of tenant default from the Company to a third party. We know our investors trust us to provide income plus growth conservatively, and we believe that KIR lays another part of the foundation for the sort of stable, secure growth our investors expect from us.

Funds from Operations Growth
(per basic share)



I have said that among people, portfolios, and properties, people are foremost, and it is to some very unique people that I devote this concluding portion of my letter. Our acquisition of the Price REIT this year brought us a windfall of new talent, and it has been a privilege and a great pleasure to welcome Joe Kornwasser, Jerry Friedman, and the rest of the superb Price REIT people into the fold. Joe has joined our Board of Directors as Executive Vice President, and I am very pleased to have him work as part of our management team. He and the other members of the Price REIT group are outstanding developers with a keen eye for new opportunities, and their insight and experience bring valuable new perspectives to our business. My appreciation goes out to Kimco's associates, who deftly integrated the two companies while handling the unprecedented amount of activity this past year.

I want also to express my appreciation to our outside directors, Dick Dooley, Joe Grills, and Frank Lourenso. These gentlemen phone me constantly with their suggestions and ideas, and their combined wisdom never fails to add a new dimension to our creative process. More importantly, they are men of integrity, depth, and good humor who care as much about our work as we do.

I count myself as extraordinarily lucky to be able to spend every day with people who are as excited as I am about the wonderful business we're in. Everyone who visits our headquarters in Long Island notices and remarks on the distinctive culture we have here, but there isn't anything mystical about it. It's simply the culture created by people who love what they do and arrive each day bursting with new ideas they can hardly wait to put into motion. These people make it a joy for me to come into the office every morning, and it brings me great inspiration to think of the years we have ahead of us together. If I could leave you with one wish for the coming year, it would be that you should reap as much satisfaction from your work as I do from mine.

Sincerely,

Milton Cooper

Chairman

D E A R F E L L O W S H A R E H O L D E R S :

As Milton tells you in his letter, 1998 was certainly a year of new records for Kimco. I am pleased to report that 1998 was also by far our busiest and most rewarding year yet. As the dust settled at the close of the year, Kimco emerged with interests in 436 properties stretching from coast to coast, as compared to the 328 property interests with which we began the year. We ended the year with a total of over 60 million square feet under management, an increase of 36% over our square footage in 1997. Overall, Kimco's assets increased 227% in 1998, from \$1.3 billion to approximately \$3 billion.

For our shareholders, our growth meant tangible results and increased returns. FFO available to common shareholders increased 56.5% to \$153.7 million, from \$98.2 million in 1997. On a per-basic-share basis, FFO increased 16.7% to \$3.07, from \$2.63 in 1997. Our dividends increased by 14.5% from \$1.72 per share in 1997 to \$1.97 per share in 1998. Kimco continues to grow at a strong, healthy rate, and it is my pleasure

to discuss the details of the work our people have done to bring this trend about.

Acquisitions:

A major area of activity this year was our acquisition of the Price REIT, an owner/developer of large community shopping centers with a portfolio of properties concentrated in the western part of the country. Our investment of over \$900 million in the Price REIT added 43 new properties to our portfolio, comprising a total of approximately 8 million square feet. The Price REIT acquisition rounds out our geographic distribution, giving us a truly national presence.

Additionally, we acquired 67 shopping center properties for a total investment of approximately \$633 million, representing 8.6 million square feet of leasable area. Included in the total investment was the purchase of 94 leasehold interests from the bankrupt estate of Venture Stores, Inc., 58 of which related to properties Kimco already owned. All told, Kimco added upwards of 16 million square feet to its portfolio in 1998.

Development:

Kimco began life as a ground-up developer of properties, and about 75 of the shopping centers in our portfolio today were developed by the Company itself. Having made our name in development, it should come as no surprise that Kimco continues to look for opportunities to add value by building from the ground up. And having been at the business so long, our management team has the ability to evaluate and control development risk for every project we initiate. Currently, we have five new shopping centers in development, with three expected to be completed by the end of 1999.

Strategic redevelopment of existing properties continues to be a mainstay of our growth as well. When a property in our portfolio matures, it often presents an opportunity to create additional value through expansion and modernization, and with our planning and construction teams, we are well positioned to capitalize on these opportunities. This year we completed redevelopment projects at five of our shopping center properties, including Richboro, Pennsylvania; Mesa, Arizona; and Orlando, Florida.

Internal Growth:

New leases signed generated substantial rent increases in our core portfolio this year, resulting in

internal growth of approximately 4%. New leases were signed on over 1.2 million square feet at an average rent of \$9.30 per square foot. The average base rent in our portfolio remains 20-25% below market, at \$7.97 per square foot for our shopping centers, providing great upside potential in our income stream.

The purchase of the Venture Stores leasehold positions, as noted above, represented the most significant value creation effort for us this past year. Venture rents at the time of our purchase averaged about \$4.00 per square foot over approximately 10 million square feet. Through the buyout of the leases, we were able to deliver the space to other major retailers, such as Kmart, Kohl's, Home Depot and others. At this time, over 85% of the space has been leased or committed to new tenants, with the new rents averaging \$7.40 per square foot, or nearly double what they were at time of purchase.

Aside from the Venture locations, same-store occupancy in our shopping centers increased this year from 89% to 91%, representing not only occupancy in our new properties but swift replacement of tenants who moved out of existing properties during the year.

Our internal growth is spurred along by the efforts of many skilled people, with the assistance of the most advanced technology available. This past year

we added tenant research and mapping capabilities to accelerate our performance, and now our leasing team operates with the support of geo-demographic mapping programs and detailed census data to determine which tenants will be the best matches for specific sites.

Kimco now has a presence in 40 states, but there is still a great deal of blank space left on the map. Of the states our centers occupy, 31 still have fewer than 10 Kimco shopping centers, and right now only about 9% of all shopping centers in the United States are owned by public companies. Kimco's size, substantial asset base and strong balance sheet give us the power to continue pressing ahead, penetrating new markets and strengthening our hold in those markets we already occupy.

We are an opportunistic company. The retail sector may be oversupplied, but that does not mean there are no great deals left to be made by a company with brains and an entrepreneurial sense of timing. We will continue to watch for underperforming retailers with

excellent real estate that we can acquire and add value. We do not simply buy properties in order to sell them quickly at a profit or manage them just as they are; we enter into complex situations where we may accept a shortfall in profit during the first year or two of management, with confidence that our work and investment in the property will pay off amply in the end. This is how we have done business for decades, and this is how we will continue to operate as we go forward. With the turn of the millennium approaching, we recommit ourselves to the business values that have carried us this far, and we look ahead with excitement and anticipation to the future.

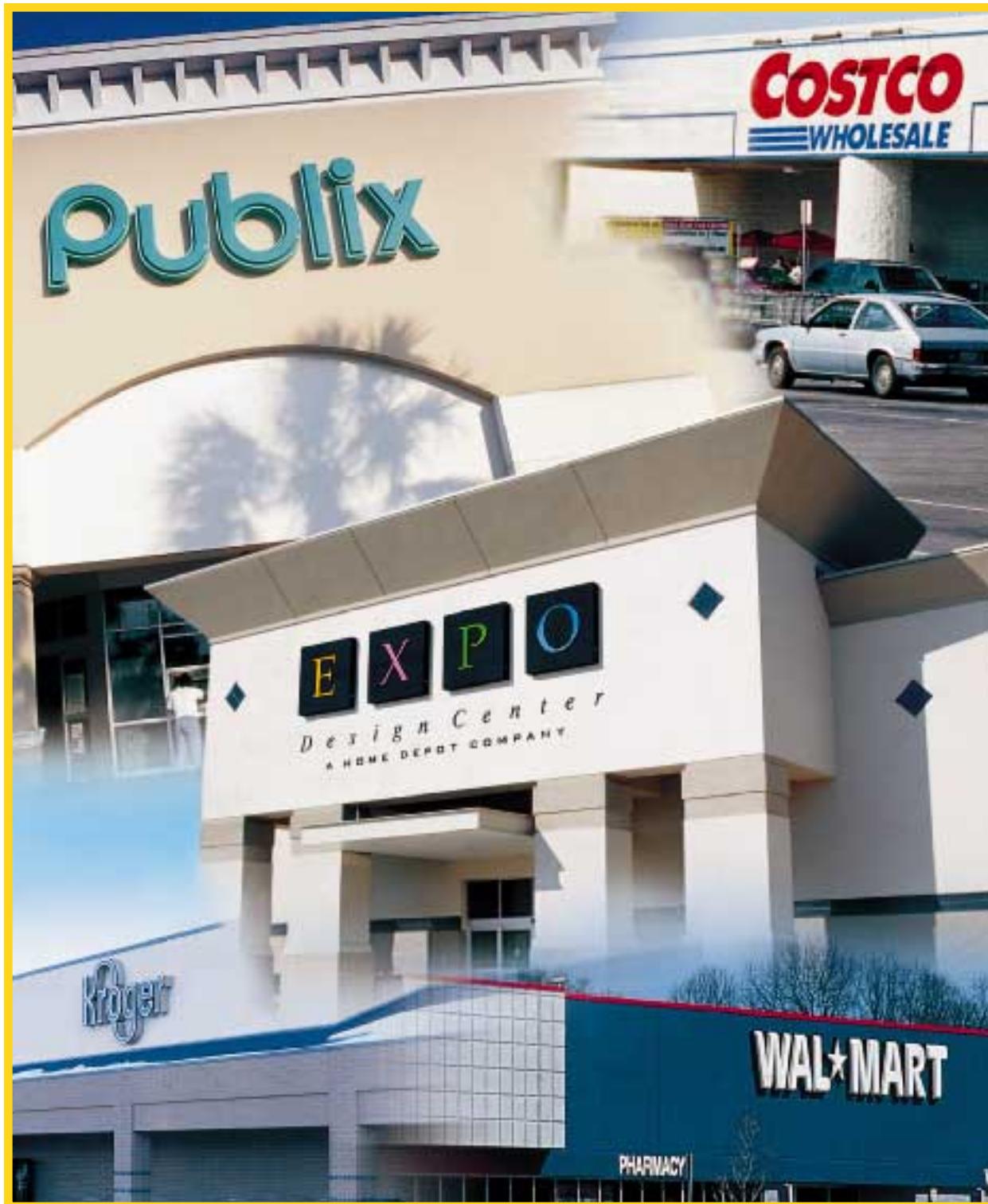
Sincerely,



Michael J. Flynn

President

A S E L E C T I O N O F O U R D I V E R S E T E N A N T B A S E



B O A R D O F D I R E C T O R S



Standing from left to right: *Richard G. Dooley, Frank Lourenso, Joe Grills, Joseph K. Kornwasser*.
Seated from left to right: *Martin S. Kimmel, Milton Cooper, Michael J. Flynn*.

P O R T F O L I O O F P R O P E R T I E S

I N T E R E S T S O W N E D O R M A N A G E D

CITY	CENTER NAME	GLA	CITY	CENTER NAME	GLA
Alabama			196	Clearwater	56,630
* 731 Birmingham	East Town Shopping Plaza	103,161	641	Clearwater	177,700
* 734 Birmingham	Red Mountain Plaza	103,161	623	Coral Springs	46,497
* 740 Fairfield	Fairfield S.C.	103,161	604	Coral Springs	256,030
Arkansas			673	Coral Springs	83,500
* 754 North Little Rock	North Little Rock S.C.	106,029	* 776	Daytona Beach	90,930
Arizona			240	Ft. Lauderdale	179,726
♦ 592 Chandler	—	—	120	Ft. Lauderdale	112,476
540 Phoenix	Hayden Plaza North	190,575	251	Ft. Lauderdale	60,414
549 Phoenix	Costco Plaza	337,107	147	Ft. Pierce	210,460
553 Phoenix	Metro Square	228,769	* 727	Jacksonville	102,997
557 Phoenix	Costco Plaza	334,597	136	Leesburg	13,468
576 Phoenix	Talavi Towne Centre	124,052	127	Melbourne	168,797
580 Phoenix	Costco/Sports Authority Plaza	384,812	616	Melbourne	131,851
♦ 582 Phoenix	Palm Valley Power Center	—	668	Melbourne	148,003
647 Phoenix	Plaza @ Mountainside	117,384	129	Miami	104,968
679 Phoenix	Poca Fiesta S.C.	135,692	134	Miami	74,973
* 745 Phoenix	Hayden Plaza South	103,161	135	Miami	87,305
California			203	Miami	160,819
106 Anaheim	LaPalma S.C.	15,396	340	Miami	83,275
541 Los Angeles	Costco Plaza	200,634	390	Miami	81,780
551 Los Angeles	La Mirada Theater Center	288,471	634	Miami	60,804
559 Los Angeles	Home Depot Plaza	134,400	♦ 702	Miami	—
759 Oakland	Magnolia Square S.C.	42,066	* 735	Miami	103,161
546 Riverside	Corona Hills Plaza	486,958	Miami	Airport Executive Towers	233,039
762 Riverside	Palm Plaza S.C.	339,966	Miami	U.S. Justice Building	138,380
543 Sacramento	Madison Plaza	214,914	677	Mount Dora	118,150
544 San Diego	Costco Plaza	371,023	198	New Port Richey	9,000
705 San Diego	Santee Center	97,451	* 761	New Port Richey	65,000
556 Ventura	Target Plaza	171,581	665	Ocala	254,937
Colorado			114	Orlando	2,800
686 Colorado Springs	Spring Creek S.C.	107,798	115	Orlando	114,434
* 780 Colorado Springs	Woodman Valley S.C.	61,453	121	Orlando	131,894
* 781 Colorado Springs	Hancock Plaza S.C.	61,452	125	Orlando	103,480
680 Denver	West 38th Street S.C.	18,405	174	Orlando	124,798
682 Denver	Village on the Park I & II	145,466	392	Orlando	301,801
683 Denver	Phar-Mor Plaza	80,330	574	Orlando	271,095
684 Denver	Heritage West S.C.	83,304	613	Orlando	130,983
685 Denver	Quincy Place S.C.	44,170	618	Orlando	230,704
689 Denver	East Bank S.C.	111,085	636	Orlando	94,193
Connecticut			638	Orlando	117,644
548 Farmington	West Farms S.C.	184,981	* 739	Orlando	103,161
500 Hamden	Hamden Mart	341,502	* 749	Orlando	103,161
554 North Haven	Home Depot Plaza	331,919	195	Palatka	72,216
608 Waterbury	Bradlee Plaza	136,153	* 726	Pensacola	102,997
Delaware			118	Pompano Beach	63,838
278 Wilmington	Value City S.C.	111,600	716	Port Richey	103,294
Florida			171	Sarasota	103,085
101 Boca Raton	Camino Square S.C.	73,549	378	Sarasota	109,930
152 Bradenton	Bradenton Plaza	24,700	128	St. Petersburg	119,179
698 Bradenton	Bayshore Gardens	162,997	619	Stuart	Marketplace Square
124 Clearwater	Wal-Mart Plaza	149,472	715	Tallahassee	170,291
139 Clearwater	Tri-City Plaza	215,916	* 725	Tallahassee	105,901
			664	Tampa	Tallahassee Center
			* 743	Tampa	Carrollwood Commons
					Busch Plaza S.C.
					109,408
					106,986

CITY	CENTER NAME	GLA	CITY	CENTER NAME	GLA			
* 769 Tarpon Springs	Tarpon Springs Center	66,242	891 Chicago	Crystal Lake S.C.	81,365			
111 West Palm Beach	Belmart Plaza	74,326	893 Chicago	Peterson Avenue S.C.	83,380			
113 West Palm Beach	Riviera Square	46,390	894 Chicago	S. Harlem S.C.	88,069			
633 West Palm Beach	Babies R Us Plaza	80,845	896 Chicago	Arlington Heights S.C.	81,370			
208 Winter Haven	Chain O'Lakes Plaza	88,400	897 Chicago	Streamwood S.C.	81,000			
Georgia								
137 Atlanta	Forest Park Plaza	100,452	898 Chicago	Addison Center	115,710			
159 Atlanta	Gainesville Towne Center	142,288	* 722 Dekalb	Northland Plaza S.C.	80,562			
215 Atlanta	Robins Plaza	111,355	881 Fairview Heights	Bellville Road S.C.	163,911			
442 Atlanta	Atlanta Center	165,314	794 Moline	Moline Center	105,977			
* 720 Atlanta	Outlet S.C. Mall	102,997	693 Orland	Orland Square	166,000			
* 724 Atlanta	Town & Country S.C.	105,405	175 Ottawa	Value City S.C.	60,000			
635 Augusta	Augusta Square	119,930	832 Peoria	Evergreen Square	158,407			
187 Macon	Macon Plaza	127,260	796 Rockford	Rockford Center	102,971			
185 Savannah	Savannah Center	187,071	854 Skokie	Skokie Center	108,423			
632 Savannah	Largo Plaza	88,480	799 Springfield	Mac Arthur Blvd. S.C.	115,526			
Illinois								
802 Alton	Beltline Highway S.C.	124,466	107 Eagledale	Eagledale S.C.	75,000			
808 Belleville	Belleville S.C.	81,730	397 Evansville	Plaza East	193,472			
176 Bloomington	Bloomington Commons	175,530	398 Evansville	Plaza West	149,182			
825 Bradley	Northfield Square	80,535	132 Felbрам	Felbрам S.C.	27,400			
848 Carbondale	Carbondale Mall	80,535	851 Griffith	Griffith Center	114,860			
870 Champaign	Neil Street S.C.	102,615	133 Indianapolis	Linwood Square	166,104			
122 Chicago	Lake Street Plaza	93,289	153 Indianapolis	Greenwood S.C.	157,160			
224 Chicago (387)	Town & Country S.C.	183,439	388 Indianapolis	Target 31 South S.C.	178,610			
563 Chicago	Woodgrove Festival	149,411	864 Indianapolis	E. Washington Center	89,042			
694 Chicago	E. Woodfield Square	167,690	145 Lafayette	Lafayette S.C.	90,500			
695 Chicago	Butterfield Square	182,624	671 Lafayette	Target S.C.	176,940			
* 755 Chicago	Washington Park Plaza	106,029	697 Lafayette	Lafayette Marketplace	190,377			
* 758 Chicago	Marketplace of Oaklawn	94,707	* 732 Lafayette	Lafayette Square	103,161			
764 Chicago	Downers Park S.C.	144,670	849 Merrillville	Merrillville Center	101,887			
809 Chicago	Orland Park S.C.	116,011	895 Mishawaka	Mishawaka Center	82,100			
822 Chicago	Geneva Center	104,000	883 South Bend	Erskine Plaza	81,668			
835 Chicago	Oak Lawn Center	164,040	* 721 Terre Haute	Terre Haute S.C.	102,997			
836 Chicago	Calumet Center	197,386	* 777 Terre Haute	S. Third St. S.C.	73,828			
837 Chicago	Oakbrook Center	169,034	Indiana					
838 Chicago	Matteson Center	165,623	107 Eagledale	Eagledale S.C.	75,000			
839 Chicago	Mt. Prospect Center	165,603	397 Evansville	Plaza East	193,472			
841 Chicago	Pulaski Road S.C.	117,450	398 Evansville	Plaza West	149,182			
845 Chicago	Norridge Center	116,914	132 Felbрам	Felbрам S.C.	27,400			
846 Chicago	Countryside Plaza	117,456	851 Griffith	Griffith Center	114,860			
852 Chicago	Downers Grove Center	141,906	133 Indianapolis	Linwood Square	166,104			
853 Chicago	Chicago Center	109,441	153 Indianapolis	Greenwood S.C.	157,160			
855 Chicago	Schaumburg Center	104,910	388 Indianapolis	Target 31 South S.C.	178,610			
856 Chicago	87th Street Center	104,264	864 Indianapolis	E. Washington Center	89,042			
860 Chicago	Elgin S.C.	102,585	145 Lafayette	Lafayette S.C.	90,500			
862 Chicago	Forest Park Mall	98,371	671 Lafayette	Target S.C.	176,940			
863 Chicago	Naper West Plaza	101,822	697 Lafayette	Lafayette Marketplace	190,377			
865 Chicago	Niles Center	101,775	* 732 Lafayette	Lafayette Square	103,161			
868 Chicago	Hillcrest Center	90,313	849 Merrillville	Merrillville Center	101,887			
874 Chicago	Mundelien S.C.	90,630	895 Mishawaka	Mishawaka Center	82,100			
885 Chicago	Elston Center	87,563	883 South Bend	Erskine Plaza	81,668			
886 Chicago	Waukegan Center	90,555	* 721 Terre Haute	Terre Haute S.C.	102,997			
887 Chicago	Crestwood Center	79,903	* 777 Terre Haute	S. Third St. S.C.	73,828			
888 Chicago	Melrose Park S.C.	88,218	Iowa					
890 Chicago	Aurora Commons	90,189	812 Clive	Clive Center	90,000			
			858 Davenport	Davenport Center	91,035			
			813 Des Moines	Des Moines Center	111,847			
			847 Dubuque	Dubuque Center	82,979			
			* 773 Spencer	Southpark Center	53,361			
			811 Waterloo	Waterloo Center	96,000			
Kansas								
561 Kansas City	Westgate Market	133,800						
* 736 Kansas City	Topeka S.C.	103,161						
* 751 Kansas City	Wichita S.C.	103,161						
805 Kansas City	Overland Park S.C.	168,953						
807 Kansas City	State Avenue Plaza	164,332						
814 Kansas City	Wichita Center	97,992						
815 Kansas City	Wichita Plaza	96,319						
843 Kansas City	Roeland Center	127,401						
* 884 Kansas City	Shawnee Center	80,235						
Kentucky								
267 Bellevue	Kroger S.C.	53,695						
140 Lexington	South Park S.C.	158,644						
795 Paducah	Paducah Center	85,229						

CITY	CENTER NAME	GLA	CITY	CENTER NAME	GLA
Louisiana			834	St. Louis	116,222
297 Baton Rouge	Lake Forest S.C.	190,000	844	St. Louis	165,809
666 Baton Rouge	Hammond Aire Plaza	262,256	* 850	St. Louis	100,724
* 752 Baton Rouge	Baton Rouge S.C.	103,161	872	St. Louis	89,305
670 Lafayette	Acadiana Square	150,936	875	St. Louis	101,592
Maryland			840	St. Peters	167,087
173 Baltimore	Laurel Plaza	73,542	Montana		
214 Baltimore	Laurel Plaza	81,550	* 774	Bozeman	49,694
560 Baltimore	Costco Plaza	209,831	Nebraska		
* 766 Salisbury	Salisbury S.C.	79,902	* 741	Omaha	92,332
221 Washington, DC	Hagerstown S.C.	115,718	New Hampshire		
Massachusetts			620	Salem	332,951
609 Great Barrington	Barrington Plaza	134,817	New Jersey		
238 Leominster	Searstown Mall	595,760	* 787	Audubon	69,984
Michigan			♦ 573	Bridgewater	—
119 Detroit	Century Plaza	44,185	306	Cherry Hill	121,673
143 Detroit	Clawson Center	177,797	614	Cherry Hill	195,824
146 Detroit	Downtown		643	Cherry Hill	129,809
	Farmington Center	97,038	645	Cinnaminson	121,084
607 Detroit	Cross Creek S.C.	121,364	587	Franklin	138,364
667 Detroit	White Lake Commons	156,864	617	North Brunswick	409,879
383 Flint	Hallwood Plaza	243,847	558	Piscataway	97,348
226 Grand Rapids	South Shore Plaza	87,430	596	Plainfield	136,939
335 Grand Rapids	Beltline Plaza	72,235	615	Ridgewood	24,280
606 Grand Rapids	Green Orchard S.C.	284,143	* 756	Willingboro	80,280
* 747 Lansing	Southfield S.C.	103,161	* 765	Woodbury Heights	82,857
Minnesota			New Mexico		
552 Minnetonka	Ridgedale Festival Center	120,220	585	Albuquerque	37,735
* 785 Virginia	Thunderbird Mall	63,550	586	Albuquerque	180,512
Mississippi			591	Albuquerque	59,723
* 782 Biloxi	Edgewater Square	61,453	New York		
* 746 Jackson	Ellis Isle S.C.	103,161	456	Amherst	101,066
Missouri			750	Bronx	225,821
873 Cape Girardeau	Girardeau Center	80,803	453	Buffalo	141,077
830 Creve Coeur	Creve Coeur S.C.	113,781	454	Buffalo	153,125
707 Joplin	North Point S.C.	147,142	105	Long Island	107,806
889 Joplin	Joplin Mall	80,524	109	Long Island	32,124
* 744 Kansas City	Hub S.C.	103,161	116	Long Island	88,206
806 Kansas City	Independence S.C.	159,847	354	Long Island	70,990
833 Kansas City	Kansas Center	161,538	360	Long Island	287,632
842 Kansas City	Trafficway Center	147,989	395	Long Island	132,318
880 Kansas City	St. Joseph S.C.	90,630	545	Long Island	163,999
625 Springfield	Primrose Marketplace	271,552	575	Long Island	265,409
869 Springfield	Springfield S.C.	163,530	605	Long Island	371,028
154 St. Louis	Shop & Save S.C.	118,080	701	Long Island	14,385
162 St. Louis	Gravois Plaza	163,821	307	Nanuet	70,829
165 St. Louis	Jennings S.C.	155,095	601	New York City	210,990
169 St. Louis	K-Mart S.C.	149,230	674	New York City	98,247
244 St. Louis	Lemay S.C.	73,281	218	Poughkeepsie	180,064
803 St. Louis	Kirkwood S.C.	167,562	427	Rochester	123,000
804 St. Louis	Christy Center	157,913	425	Rochester	105,000
829 St. Louis	Overland Center	162,901	426	Rochester (149)	185,153
831 St. Louis	Dunn Center	164,191	801	Yonkers	43,560

CITY	CENTER NAME	GLA	CITY	CENTER NAME	GLA
North Carolina					
144 Charlotte	Woodlawn Marketplace	110,300	405 Dayton	Cross Pointe S.C.	115,378
192 Charlotte	Independence Square	135,269	406 Dayton	Value City Plaza	123,148
380 Charlotte (384)	Tyvola Mall	227,883	♦ 714 Dayton		—
602 Charlotte	Akers Center	235,607	325 Lima	Eastgate Plaza	194,130
639 Durham	Oakcreek Village S.C.	116,169	416 Springfield	Kmart Plaza	131,628
550 Greensboro	Wendover Ridge	41,387	* 728 Toledo	Toledo S.C.	102,997
177 Raleigh	Pleasant Valley Promenade	374,395	* 729 Toledo	Northwood S.C.	103,161
696 Raleigh	Wellington Park S.C.	102,787	* 730 Youngstown	Youngstown S.C.	102,908
126 Winston-Salem	Cloverdale S.C.	137,929			
Ohio					
220 Akron	Ames Shopping Center	119,975	876 Edmond	Broadway Center	96,481
245 Akron	Harvest Plaza	56,975	857 Midwest City	Midwest City S.C.	99,118
419 Akron	West Market Plaza	138,363	555 Oklahoma City	Centennial Plaza	233,797
430 Akron	Hills Plaza	149,054	* 871 Oklahoma City	Shields Plaza	111,314
437 Akron (637)	Hills Plaza	106,500	810 Tulsa	Kmart S.C.	96,100
457 Akron (657)	Hills Plaza	219,632	* 859 Tulsa	S. Sheridan Center	93,748
242 Cambridge	Cambridge Square	95,955			
182 Canton	Canton Hills S.C.	63,712			
188 Canton	Beldon Village Commons	161,569			
422 Canton	Canton Hills S.C.	99,267			
439 Canton	Hills Plaza	150,900			
440 Canton	Hills Plaza	102,632			
413 Cincinnati	Ridge Plaza	139,985			
276 Cincinnati	Kmart Plaza	130,715			
415 Cincinnati	Glenway Plaza	122,444			
420 Cincinnati	Cassinelli Square	321,537			
233 Cleveland	Greenlite S.C.	82,411			
234 Cleveland	Town Square	128,180			
246 Cleveland	Kmart Plaza	168,523			
399 Cleveland	Hills Plaza	103,911			
408 Cleveland	Kmart Plaza	103,400			
409 Cleveland	Hills Plaza	104,342			
410 Cleveland	Willoughby Plaza	152,342			
411 Cleveland	Hills Plaza	133,563			
414 Cleveland	Hills Plaza	99,862			
417 Cleveland	Erie Commons	271,914			
421 Cleveland	Meadowbrook Square	133,147			
102 Columbus	Whitehall S.C.	112,813			
130 Columbus	Arlington Square	153,733			
401 Columbus	Morse Plaza	191,089			
402 Columbus	S. Hamilton S.C.	140,993			
403 Columbus	Olentangy Plaza	129,008			
407 Columbus	West Broad Plaza	135,650			
423 Columbus (178)	Westerville Plaza	242,124			
424 Columbus	S. High Plaza	99,262			
597 Columbus	Northwest Square	113,184			
* 775 Columbus	Columbus Square	79,902			
131 Dayton	Shiloh Springs Plaza	163,131			
308 Dayton (310)	Oak Creek Plaza	215,891			
309 Dayton (311/313)	Woodman Plaza	127,520			
320 Dayton	Southland 75 S.C.	99,147			
345 Dayton	Beavercreek Plaza	127,318			
404 Dayton	Salem Plaza	141,616			

CITY	CENTER NAME	GLA	CITY	CENTER NAME	GLA
Rhode Island					
691 Cranston	Marshalls Plaza	129,907	719 Houston	Sharpstown Court	84,188
South Carolina			817 Houston	W. Oaks S.C.	96,500
379 Aiken	Heritage Square	132,345	821 Houston	Beltway Plaza Center	106,000
254 Charleston	St. Andrews Center	166,855	823 Houston	Baytown Village S.C.	103,800
631 Charleston	Westwood Plaza	186,096	877 Houston	Westheimer Crossing	106,295
646 Florence	Crossroads Center	113,922	590 Lewisville	Lewisville Center	93,668
676 Greenville	The Gallery S.C.	148,612	678 Lubbock	South Plains Plaza	108,326
692 North Charleston	North Rivers S.C.	204,662	* 742 Lubbock	Lubbock S.C.	103,161
Tennessee			♦ 827 North Richland Hills		—
253 Chattanooga	Red Bank S.C.	44,288	572 Richardson	Richardson Plaza	115,579
282 Madison	Old Towne Village	182,256	♦ 717 San Antonio		—
583 Nashville	Marketplace at Rivergate	109,012	* 771 San Antonio	San Pedro Avenue S.C.	79,902
588 Memphis	The Shoppes at Rivergate	171,236	* 778 Temple	Market Place S.C.	61,453
594 Memphis	Trolley Station	167,283	* 738 Waco	Parkdale S.C.	101,093
Texas			Utah		
879 Amarillo	Westgate Plaza	342,859	103 Ogden	Kmart S.C.	121,449
564 Austin	Arboretum Crossing	192,010	Virginia		
589 Austin	Center of the Hills	153,325	800 Richmond	Burlington Coat Center	121,550
♦ 712 Cedar Hill		—	* 753 Virginia Beach	Virginia Beach S.C.	103,161
* 878 Corpus Christi	Corpus Christi Center	108,022	225 Washington, DC	Gordon Plaza	186,142
828 Corsicana	Distribution Center	350,000	547 Washington, DC	Costco Plaza	323,262
170 Dallas	Big Town Mall	566,826	562 Washington, DC	Smoketown Station	481,740
256 Dallas	Kroger Plaza	79,550	672 Washington, DC	Festival @ Manassas	117,525
270 Dallas	Big Town Exhibition Hall	130,819	* 786 Washington, DC	Braddockton Center	61,453
565 Dallas	City Place	83,867	Washington		
566 Dallas	Broadmoor Village	62,000	542 Seattle	Cordata Centre	174,547
568 Dallas	Shops at Vista Ridge	74,890	West Virginia		
569 Dallas	Vista Ridge Plaza	124,104	330 Charles Town	Charles Town Plaza	201,208
570 Dallas (571)	Mesquite Town Center	209,580	376 Martinsburg	Martins Food Plaza	43,212
642 Dallas	Kroger Center	41,364	595 South Charleston	Riverwalk Plaza	188,589
* 768 Dallas	Parker Plaza S.C.	79,902	Wisconsin		
* 783 Dallas	Euless Town Center	61,453	381 Racine	Badger Plaza	158,930
816 Dallas	Plano Center	97,260	TOTAL NUMBER OF PROPERTY INTERESTS		467
818 Dallas	Arlington Center	97,000	TOTAL GLA		60,483,791
819 Dallas	Duncanville Center	96,500			
820 Dallas	Garland Center	103,600			
866 Dallas	Arlington Center	96,127			
* 748 El Paso	El Paso S.C.	103,161			
824 Ft. Worth	Kmart S.C.	106,000			
230 Houston	Kroger S.C.	45,494			
567 Houston	Center at Baybrook	426,097			
584 Houston	Home Depot Plaza	3,500			
655 Houston	Woodforest S.C.	113,831			

* Denotes retail store lease relating to the anchor store premises in a neighborhood and community shopping center. The premises are subleased to a national retailer(s) which lease the space pursuant to a net lease agreement(s).

♦ Represents undeveloped land or land held for development.



F I N A N C I A L R E V I E W

FINANCIAL HIGHLIGHTS

	1998	1997	1996	1995	1994
Year Ended December 31,					
(in thousands, except per share data)					
Operating Data:					
Revenues from rental property ⁽¹⁾	\$ 338,798	\$ 198,929	\$ 168,144	\$ 143,132	\$ 125,272
Depreciation and amortization	\$ 51,348	\$ 30,053	\$ 27,067	\$ 26,188	\$ 23,478
Income before extraordinary items	\$ 127,166 ⁽³⁾	\$ 85,836 ⁽³⁾	\$ 73,827 ⁽³⁾	\$ 51,922	\$ 41,071
Income per common share, before extraordinary items:					
Basic	\$ 2.05 ⁽³⁾	\$ 1.80 ⁽³⁾	\$ 1.61 ⁽³⁾	\$ 1.33	\$ 1.17
Diluted	\$ 2.02 ⁽³⁾	\$ 1.78 ⁽³⁾	\$ 1.59 ⁽³⁾	\$ 1.32	\$ 1.16
Interest expense	\$ 64,912	\$ 31,745	\$ 27,019	\$ 25,585	\$ 20,483
Weighted average number of shares of common stock outstanding:					
Basic	50,071	37,388	35,906	33,388	30,072
Diluted	50,641	37,850	36,219	33,633	30,264
Cash dividends per common share	\$ 1.97	\$ 1.72	\$ 1.56	\$ 1.44	\$ 1.33
December 31,					
	1998	1997	1996	1995	1994
Balance Sheet Data:					
Real estate, before accumulated depreciation	\$3,023,902 ⁽⁴⁾	\$1,404,196 ⁽⁴⁾	\$1,072,056 ⁽⁴⁾	\$ 932,390 ⁽⁴⁾	\$ 796,611
Total assets	\$3,051,178	\$1,343,890	\$1,023,033	\$ 884,242	\$ 736,709
Total debt	\$1,289,561	\$ 531,614	\$ 364,655	\$ 389,223	\$ 372,999
Year ended December 31,					
	1998	1997	1996	1995	1994
Other Data:					
Funds from Operations ⁽²⁾ :					
Net Income	\$ 122,266	\$ 85,836	\$ 73,827	\$ 51,922	\$ 40,247
Depreciation and amortization	51,348	30,053	27,067	26,188	23,478
(Gain) loss on sales of properties and early repayment of mortgage debt	3,999	(244)	(802)	(370)	824
Preferred stock dividends	(24,654)	(18,438)	(16,134)	(7,631)	(5,812)
Other	788	976	1,148	2,019	901
Funds from Operations	\$ 153,747	\$ 98,183	\$ 85,106	\$ 72,128	\$ 59,638
Cash flow provided by operations	\$ 158,706	\$ 125,108	\$ 101,892	\$ 74,233	\$ 62,933
Cash flow used for investing activities	\$ (630,229)	\$ (280,823)	\$ (144,027)	\$ (127,261)	\$ (142,183)
Cash flow provided by financing activities	\$ 484,465	\$ 149,269	\$ 63,395	\$ 58,248	\$ 37,047

(1) Does not include revenues from rental property relating to unconsolidated joint ventures or revenues relating to the investment in retail store leases.

(2) Most industry analysts and equity REITs, including the Company, generally consider funds from operations ("FFO") to be an appropriate supplemental measure of the performance of an equity REIT. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") modified the definition of FFO, among other things, to eliminate adding back amortization of deferred financing costs and depreciation of non-real estate items to net income when computing FFO. The Company adopted this new method as of January 1, 1996. FFO is defined as net income applicable to common shares before depreciation and amortization, extraordinary items, gains or losses on sales of real estate, plus FFO of unconsolidated joint ventures determined on a consistent basis. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and therefore should not be considered an alternative for net income as a measure of results of operations, or for cash flows from operations calculated in accordance with generally accepted accounting principles as a measure of liquidity. In addition, the comparability of the Company's FFO with the FFO reported by other REITs may be affected by the differences that may exist regarding certain accounting policies relating to expenditures for repairs and other recurring items.

(3) Includes \$.9 million or \$0.02 per share in 1998, \$.2 million or \$0.01 per share in 1997 and \$.8 million or \$0.02 per share in 1996 relating to non-recurring gains from the disposition of shopping center properties in each year.

(4) Does not include the Company's investment in retail store leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Annual Report. Historical results and percentage relationships set forth in the Consolidated Statements of Income contained in the Consolidated Financial Statements, including trends which might appear, should not be taken as indicative of future operations.

Results of Operations

Comparison 1998 to 1997

Revenues from rental property increased approximately \$139.9 million, or 70.3% to \$338.8 million for the year ended December 31, 1998, as compared with \$198.9 million for the year ended December 31, 1997. This increase resulted primarily from the combined effect of (i) the acquisition of 62 shopping center properties and 3 retail properties during 1998 providing revenues from rental property of \$35.5 million, (ii) the full year impact related to the 63 property interests acquired in 1997 providing incremental revenues of \$42.1 million, (iii) the acquisition of the Price REIT as of June 19, 1998 (the "Price REIT Acquisition") providing revenues of \$52.9 million and (iv) new leasing, re-tenanting and completion of certain property redevelopments within the portfolio providing improved rental rates.

Rental property expenses, including depreciation and amortization, increased approximately \$92.3 million, or 80.1%, to \$207.5 million for the year ended December 31, 1998, as compared with \$115.2 million for the preceding calendar year. The rental property expense components of rent, real estate taxes and depreciation and amortization increased \$7.7 million, \$19.1 million and \$21.3 million, respectively, for the year ended December 31, 1998 as compared to the preceding year. These rental property expense increases are primarily due to the 62 shopping center properties and 3 retail properties acquired during 1998, the Price REIT Acquisition and the incremental costs related to the 63 property interests acquired during 1997. Interest expense increased approximately \$33.2 million between the respective periods reflecting higher average outstanding borrowings during calendar year 1998 resulting from (i) the issuance of an aggregate \$290 million unsecured medium-term notes during 1998, (ii) the assumption of approximately \$49.2 million of mortgage debt in connection with the acquisition of certain property interests during 1998, as compared to the preceding year, (iii) the aggregate of \$281.3 million of mortgage financing obtained in 1998 in connection with 22 property interests and (iv) the assumption of approximately \$250 million of unsecured debt and \$60 million of mortgage debt in connection with the Price REIT

Acquisition. These increased borrowings were offset, in part, by the July 1998 repayment of \$50 million medium-term notes which matured and the repayment of approximately \$79.2 million of mortgage debt during 1998.

The Company has interests in various retail store leases relating to the anchor store premises in neighborhood and community shopping centers. These premises have been substantially sublet to retailers which lease the stores pursuant to net lease agreements. Income from the investment in retail store leases during the years ended December 31, 1998 and 1997 was \$3.7 million and \$3.6 million, respectively.

General and administrative expenses increased approximately \$6.9 million to \$18.6 million for the year ended December 31, 1998, as compared to \$11.7 million for the preceding calendar year. The increase during 1998 is due primarily to an increase in senior management and staff levels and other personnel costs in connection with the growth of the Company, including approximately \$3.0 million attributable to the Price REIT Acquisition.

During 1998, the Company disposed of a property in Pinellas Park, Florida. Cash proceeds from the disposition totaling \$2.3 million, together with an additional \$7.1 million cash investment, were used to acquire an exchange shopping center property located in Cranston, Rhode Island.

Additionally, during December 1998, the Company disposed of a vacant distribution center and adjacent facility located in O'Fallon, Missouri, which were acquired as part of the Venture transactions, for \$10 million, which amount approximated their net book value.

During 1998, the Company prepaid certain mortgage loans resulting in extraordinary charges of approximately \$4.9 million, or on a per-basic share and diluted share basis, \$.10 and \$.09, respectively, representing the premiums paid and other costs written-off in connection with the early satisfaction of these mortgage loans.

Net income for the year ended December 31, 1998 of approximately \$122.3 million represented a substantial improvement of approximately \$36.5 million, as compared with net income of approximately \$85.8 million for the preceding calendar year. After adjusting for the gains on the sale of shopping center properties during both periods and the extraordinary loss during 1998, net income for 1998 increased by \$40.7 million, or \$.24 per basic share, compared to 1997. This substantially improved performance was primarily attributable to the Company's strong property acquisition program, the Price REIT Acquisition and internal growth from redevelopments, re-tenanting of the Venture portfolio and increased leasing activity which strengthened operating profitability.

**M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S O F
F I N A N C I A L C O N D I T I O N A N D R E S U L T S O F O P E R A T I O N S**
(CONTINUED)

Results of Operations

Comparison of 1997 to 1996

Revenues from rental property increased approximately \$30.8 million, or 18.3% to \$198.9 million for the year ended December 31, 1997, as compared with \$168.1 million for the year ended December 31, 1996. This increase resulted primarily from the combined effect of (i) the acquisition of 63 property interests during 1997 providing revenues from rental property of \$20.1 million, (ii) the full year impact related to the 39 property interests acquired in 1996 and (iii) new leasing and re-tenanting within the portfolio at improved rental rates providing an increase in the overall occupancy level from 87% at December 31, 1996 to 90% at December 31, 1997.

Rental property expenses, including depreciation and amortization, increased approximately \$18.2 million, or 18.8%, to \$115.2 million for the year ended December 31, 1997, as compared with \$97.0 million for the preceding calendar year. Rent, real estate taxes and depreciation and amortization charges contributed significantly to this net increase in rental property expenses (increasing \$3.5 million, \$6.5 million and \$3.0 million, respectively, for the year ended December 31, 1997 as compared to the preceding year) primarily due to the 63 property interests acquired during 1997 and the 39 property interests acquired during 1996. Interest expense increased approximately \$4.7 million between the respective periods reflecting higher average outstanding borrowings during calendar year 1997 resulting from (i) the issuance of an aggregate \$100 million unsecured medium-term notes during 1997 and (ii) the assumption of approximately \$73.2 million of mortgage debt in connection with the acquisition of certain property interests during 1997, as compared to the preceding year.

The Company has interests in various retail store leases relating to the anchor store premises in neighborhood and community shopping centers. These premises have been substantially sublet to retailers which lease the stores pursuant to net lease agreements. Income from the investment in retail store leases during the years ended December 31, 1997 and 1996 was \$3.6 million in each year.

General and administrative expenses increased approximately \$1.3 million to \$11.6 million for the year ended December 31, 1997, as compared to \$10.3 million for the preceding calendar year. This increase is primarily attributable to increased senior management and staff levels during 1997 and 1996.

During 1997, the Company disposed of a property in Troy, Ohio. Cash proceeds from the disposition totaling \$1.6 million, together with an additional \$8.3 million cash investment, were used to acquire an exchange shopping center property located in Ocala, Florida.

Net income for the year ended December 31, 1997 of approximately \$85.8 million represented an improvement of approximately \$12.0 million, as compared with net income of approximately \$73.8 million for the preceding calendar year. After adjusting for the gains on the sale of shopping center properties during both periods, net income for 1997 increased by \$12.6 million, or \$.20 per basic share, compared to 1996. This substantially improved performance was primarily attributable to property acquisitions and redevelopments and increased leasing activity which strengthened operating profitability.

Liquidity and Capital Resources

Since the completion of the Company's IPO in 1991, the Company has utilized the public debt and equity markets as its principal source of capital. Since the IPO, the Company has completed additional offerings of its public unsecured debt and equity, raising in the aggregate over \$1.9 billion for the purposes of repaying indebtedness, acquiring interests in neighborhood and community shopping centers and for expanding and improving properties in the portfolio.

During August 1998, the Company established a \$215 million, unsecured revolving credit facility, which is scheduled to expire in August 2001. This credit facility, which replaced both the Company's \$100 million unsecured revolving credit facility and \$150 million interim credit facility, has made available funds to both finance the purchase of properties and meet any short-term working capital requirements. As of December 31, 1998 there were no borrowings outstanding under the Company's revolving credit facility.

The Company has also implemented a \$200 million MTN program pursuant to which it may from time to time offer for sale its senior unsecured debt for any general corporate purposes, including (i) funding specific liquidity requirements in its business, including property acquisitions, development and redevelopment costs and (ii) managing the Company's debt maturities. (See Note 7 of the Notes to Consolidated Financial Statements included in this Annual Report.)

In addition to the public equity and debt markets as capital sources, the Company may, from time to time, obtain mortgage financing on selected properties. As of December 31, 1998, the Company had over 300 unencumbered property interests in its portfolio.

During 1998, the Company filed a shelf registration on Form S-3 for up to \$750 million of debt securities, preferred stock, depositary shares, common stock and common stock warrants. As of March 1, 1999, the Company had approximately \$493.2 million available for issuance under this shelf registration statement.

**M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S O F
F I N A N C I A L C O N D I T I O N A N D R E S U L T S O F O P E R A T I O N S**
(CONTINUED)

In connection with its intention to continue to qualify as a REIT for Federal income tax purposes, the Company expects to continue paying regular dividends to its stockholders. These dividends will be paid from operating cash flows which are expected to increase due to property acquisitions and growth in rental revenues in the existing portfolio and from other sources. Since cash used to pay dividends reduces amounts available for capital investment, the Company generally intends to maintain a conservative dividend payout ratio, reserving such amounts as it considers necessary for the expansion and renovation of shopping centers in its portfolio, debt reduction, the acquisition of interests in new properties as suitable opportunities arise, and such other factors as the Board of Directors considers appropriate.

Cash dividends paid increased to \$113.9 million in 1998, compared to \$82.6 million in 1997 and \$69.8 million in 1996. The Company's dividend payout ratio, based on funds from operations on a per-basic common share basis, for 1998, 1997 and 1996 was approximately 64.2%, 65.4% and 65.8%, respectively.

Although the Company receives substantially all of its rental payments on a monthly basis, it generally intends to continue paying dividends quarterly. Amounts accumulated in advance of each quarterly distribution will be invested by the Company in short-term money market or other suitable instruments.

The Company anticipates its capital commitment toward ground-up development and redevelopment projects during 1999 will be approximately \$150 million. It is management's intention that the Company continually have access to the capital resources necessary to expand and develop its business. Accordingly, the Company may seek to obtain funds through additional equity offerings, unsecured debt financings and/or mortgage financings in a manner consistent with its intention to operate with a conservative debt capitalization policy.

The Company anticipates that cash flows from operations will continue to provide adequate capital to fund its operating and administrative expenses, regular debt service obligations and all dividend payments in accordance with REIT requirements in both the short-term and long-term. In addition, the Company anticipates that cash on hand, borrowings under its revolving credit facility, issuance of equity and public debt, as well as other debt and equity alternatives, will provide the necessary capital required by the Company. Cash flows from operations as reported in the Consolidated Statements of Cash Flows increased to \$158.7 million for 1998 from \$125.1 million for 1997 and \$101.9 million for 1996.

Effects of Inflation

Many of the Company's leases contain provisions designed to mitigate the adverse impact of inflation. Such provisions include clauses enabling the Company to receive percentage rents, which generally increase as prices rise, and/or escalation clauses, which generally increase rental rates during the terms of the leases. Such escalation clauses include increases in the consumer price index or similar inflation indices. In addition, many of the Company's leases are for terms of less than 10 years, which permits the Company to seek to increase rents upon renewal to market rates. Most of the Company's leases require the tenant to pay an allocable share of operating expenses, including common area maintenance costs, real estate taxes and insurance, thereby reducing the Company's exposure to increases in costs and operating expenses resulting from inflation. The Company periodically evaluates its exposure to short-term interest rates and will, from time to time, enter into interest rate protection agreements which mitigate, but do not eliminate, the effect of changes in interest rates on its floating-rate debt.

Year 2000 Issue

Like most corporations, the Company depends upon its business and technical information systems in operating its business. Many computer systems process dates using two digits to identify the year, and some systems are unable to properly process dates beginning with the year 2000. This problem is commonly referred to as the "Year 2000" issue.

The Company has completed the assessment phase of its systems as to Year 2000 compliance and functionality. The Company has substantially completed the identification and review of computer hardware and software suppliers and is currently verifying the Year 2000 compliance of third-party suppliers, vendors and service providers that the Company has deemed important to the ongoing operations of the business. The Company has substantially completed the modification of its software applications and is in the final phase of testing. The Company anticipates its systems, including hardware and software, will be Year 2000 compliant by the end of the second quarter of 1999.

The total costs to date related to the Year 2000 issue have been immaterial to the Company's operations. These costs have been expensed as incurred and consist primarily of internal staff costs and other related expenses. The Company does not believe that the remaining costs expected to be incurred in addressing the Year 2000 issue will have a material adverse effect on its financial condition or results of operations.

**M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S O F
F I N A N C I A L C O N D I T I O N A N D R E S U L T S O F O P E R A T I O N S**
(CONTINUED)

Based upon the substantial progress made to date, the Company does not anticipate delays in finalizing internal Year 2000 compliance issues. However, the Company cannot guarantee that our third party vendors, partners or others will be Year 2000 compliant. If the Company or such third party vendors, partners and others encounter problems in addressing the Year 2000 issue, the Company's ability to operate its properties and to bill and collect revenues in a timely manner could be materially adversely affected. The Company is currently addressing the development of a contingency plan in the event that its systems or the systems of third party vendors, partners or others fail to resolve the Year 2000 issue.

New Accounting Pronouncements

During 1998, the Company adopted the provisions of Financial Accounting Standards No. 130—"Reporting Comprehensive Income" ("SFAS 130") which established standards for reporting and displaying comprehensive income and its components and the provisions of Financial Accounting Standards No. 131—"Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") which established standards for reporting information about operating segments. The provisions of SFAS 130 and SFAS 131 had no impact on the consolidated financial statements of the Company.

In 1998, the Financial Accounting Standards Board issued Financial Accounting Standards No. 133—"Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which is effective for years beginning after June 15, 1999. The management of the Company believes that the implementation of SFAS 133 will not have a material impact on the Company's consolidated financial statements.

In addition, during 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5") and Statement of Position 98-1—"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), each of which is effective for fiscal years beginning after December 15, 1998. SOP 98-5 requires that certain costs incurred in connection with start-up activities be expensed. SOP 98-1 provides guidance on whether the costs of computer software developed or obtained for internal use should be capitalized or expensed. The management of the Company believes that, when adopted, SOP 98-5 and SOP 98-1 will not have a material impact on the Company's consolidated financial statements.

Forward-Looking Statements

This Annual Report, together with other statements and information publicly disseminated by the Company contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Company's control and which could materially affect actual results, performances or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to, (i) general economic and local real estate conditions, (ii) financing risks, such as the inability to obtain equity or debt financing on favorable terms, (iii) changes in governmental laws and regulations, (iv) the level and volatility of interest rates (v) the availability of suitable acquisition opportunities and (vi) increases in operating costs. Accordingly, there is no assurance that the Company's expectations will be realized.

Quantitative and Qualitative Disclosures

About Market Risk

As of December 31, 1998, the Company had approximately \$279.1 million of floating-rate debt outstanding. The interest rate risk on \$260 million of such debt has been mitigated through the use of interest rate swap agreements (the "Swaps") with major financial institutions. The Company is exposed to credit risk in the event of non-performance by the counter-parties to the Swaps. The Company believes it mitigates its credit risk by entering into these Swaps with major financial institutions.

The Company believes the interest rate risk represented by the remaining \$19.1 million of floating-rate debt is not material in relation to the total debt outstanding of the Company or its market capitalization.

The Company has not, and does not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of December 31, 1998, the Company had no other material exposure to market risk.

R E P O R T O F I N D E P E N D E N T A C C O U N T A N T S

To the Board of Directors and Stockholders of
Kimco Realty Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Kimco Realty Corporation and Subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements

are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

New York, New York
February 26, 1999

C O N S O L I D A T E D B A L A N C E S H E E T S

	December 31, 1998	December 31, 1997
Assets:		
Real Estate		
Rental property		
Land	\$ 528,549,456	\$ 212,019,596
Buildings and improvements	2,494,004,820	1,190,828,854
	3,022,554,276	1,402,848,450
Less, accumulated depreciation and amortization	255,949,923	207,408,091
	2,766,604,353	1,195,440,359
Undeveloped land	1,347,709	1,347,709
	2,767,952,062	1,196,788,068
Investment in retail store leases	15,171,978	15,938,041
Investments and advances in real estate joint ventures	64,263,252	9,794,142
Cash and cash equivalents	43,920,544	30,978,178
Accounts and notes receivable	31,820,940	16,203,454
Deferred charges and prepaid expenses	34,030,574	21,260,041
Other assets	94,019,071	52,928,200
	\$3,051,178,421	\$1,343,890,124
Liabilities & Stockholders' Equity:		
Notes payable	\$ 855,250,000	\$ 410,250,000
Mortgages payable	434,310,884	121,363,908
Accounts payable and accrued expenses	66,179,347	34,288,409
Dividends payable	39,444,195	22,545,806
Other liabilities	58,019,873	7,590,856
	1,453,204,299	596,038,979
Minority interests in partnerships	12,955,270	4,531,934
Commitments and contingencies		
Stockholders' equity		
Preferred Stock, \$1.00 par value, authorized 3,470,000 and 5,000,000 shares, respectively		
Class A Preferred Stock, \$1.00 par value, authorized 345,000 shares		
Issued and outstanding 300,000 shares	300,000	300,000
Aggregate liquidation preference \$75,000,000		
Class B Preferred Stock, \$1.00 par value, authorized 230,000 shares		
Issued and outstanding 200,000 shares	200,000	200,000
Aggregate liquidation preference \$50,000,000		
Class C Preferred Stock, \$1.00 par value, authorized 460,000 shares		
Issued and outstanding 400,000 shares	400,000	400,000
Aggregate liquidation preference \$100,000,000		
Class D Convertible Preferred Stock, \$1.00 par value, authorized 700,000 shares		
Issued and outstanding 429,159 shares	429,159	—
Aggregate liquidation preference \$107,289,750		
Common stock, \$.01 par value, authorized 100,000,000 shares		
Issued and outstanding 60,133,704 and 40,394,805 shares, respectively	601,337	403,948
Paid-in capital	1,707,271,637	857,658,054
Cumulative distributions in excess of net income	(124,183,281)	(115,642,791)
	1,585,018,852	743,319,211
	\$3,051,178,421	\$1,343,890,124

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

C O N S O L I D A T E D S T A T E M E N T S O F I N C O M E

	Year Ended December 31,		
	1998	1997	1996
Revenues from rental property	\$338,797,629	\$198,929,403	\$168,144,419
Rental property expenses:			
Rent	12,568,259	4,873,200	1,417,263
Real estate taxes	45,472,470	26,345,685	19,815,808
Interest	64,911,743	31,744,762	27,019,283
Operating and maintenance	33,246,001	22,194,628	21,659,620
Depreciation and amortization	51,347,612	30,052,714	27,066,709
	207,546,085	115,210,989	96,978,683
Income from rental property	131,251,544	83,718,414	71,165,736
Income from investment in retail store leases	3,702,854	3,571,946	3,631,845
	134,954,398	87,290,360	74,797,581
Management fee income	3,645,674	3,276,152	3,447,577
General and administrative expenses	(18,582,817)	(11,651,341)	(10,333,924)
Equity in income of real estate joint ventures, net	3,106,214	1,116,988	820,083
Minority interests in income of partnerships, net	(1,275,360)	(463,522)	(470,441)
Other income, net	4,416,973	6,023,813	4,764,062
Income before gain on sale of shopping center property and extraordinary items	126,265,082	85,592,450	73,024,938
Gain on sale of shopping center	901,249	243,995	801,955
Income before extraordinary items	127,166,331	85,836,445	73,826,893
Extraordinary items	(4,900,361)	—	—
Net income	\$122,265,970	\$ 85,836,445	\$ 73,826,893
Net income applicable to common shares	\$ 97,612,123	\$ 67,398,745	\$ 57,692,418
Per common share:			
Income before extraordinary items			
Basic	\$ 2.05	\$ 1.80	\$ 1.61
Diluted	\$ 2.02	\$ 1.78	\$ 1.59
Net Income			
Basic	\$ 1.95	\$ 1.80	\$ 1.61
Diluted	\$ 1.93	\$ 1.78	\$ 1.59

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

**CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY**
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Preferred Stock		Common Stock		Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity
	Issued	Amount	Issued	Amount			
Balance, December 31, 1995	500,000	\$ 500,000	33,731,348	\$ 337,313	\$ 562,311,822	\$ (114,665,183)	\$ 448,483,952
Net income						73,826,893	73,826,893
Dividends (\$1.60 per common share; \$1.9375, \$2.125 and \$1.59943 per Class A, Class B and Class C Depository Share, respectively)						(74,254,848)	(74,254,848)
Issuance of preferred stock	400,000	400,000			96,037,337		96,437,337
Issuance of common stock			2,320,125	23,201	58,087,001		58,110,202
Exercise of common stock options			163,582	1,637	3,165,796		3,167,433
Balance, December 31, 1996	900,000	900,000	36,215,055	362,151	719,601,956	(115,093,138)	605,770,969
Net income						85,836,445	85,836,445
Dividends (\$1.77 per common share; \$1.9375, \$2.125 and \$2.0938 per Class A, Class B and Class C Depository Share, respectively)						(86,386,098)	(86,386,098)
Issuance of common stock			4,000,000	40,000	134,293,408		134,333,408
Exercise of common stock options			179,750	1,797	3,762,690		3,764,487
Balance, December 31, 1997	900,000	900,000	40,394,805	403,948	857,658,054	(115,642,791)	743,319,211
Net income						122,265,970	122,265,970
Dividends (\$2.06 per common share; \$1.9375, \$2.125, \$2.0938, \$1.0729 and \$2.9609 per Class A, Class B, Class C, Class D and Class E Depository Share, respectively)						(130,806,460)	(130,806,460)
Issuance of preferred stock	494,159	494,159			171,795,591		172,289,750
Issuance of common stock			19,588,133	195,881	739,590,562		739,786,443
Exercise of common stock options			150,766	1,508	3,162,430		3,163,938
Redemption of preferred stock	(65,000)	(65,000)			(64,935,000)		(65,000,000)
Balance, December 31, 1998	1,329,159	\$1,329,159	60,133,704	\$601,337	\$1,707,271,637	\$124,183,281	\$1,585,018,852

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1998	1997	1996
Cash flow from operating activities:			
Net income	\$ 122,265,970	\$ 85,836,445	\$ 73,826,893
Adjustments for noncash items—			
Depreciation and amortization	51,347,612	30,052,714	27,066,709
Extraordinary items	4,900,361	—	—
Gain on sale of shopping center	(901,249)	(243,995)	(801,955)
Minority interests in income of partnerships, net	1,275,360	463,522	470,441
Equity in income of real estate joint ventures, net	(3,106,214)	(1,116,988)	(820,083)
Change in accounts and notes receivable	(11,422,086)	(2,217,316)	2,626,760
Change in accounts payable and accrued expenses	(6,607,964)	12,304,523	2,730,442
Change in other operating assets and liabilities	954,079	28,736	(3,207,396)
Net cash flow provided by operations	158,705,869	125,107,641	101,891,811
Cash flow from investing activities:			
Acquisition of and improvements to real estate	(583,979,056)	(261,225,536)	(140,916,684)
Acquisition of real estate through joint venture investment	(23,313,994)	(4,625,068)	—
Investment in marketable securities	(7,088,793)	(11,138,247)	(4,935,008)
Advances to affiliated companies	—	(14,036,000)	—
Investment in mortgage loans receivable	(27,698,415)	—	—
Repayment of mortgage loans receivable	1,456,200	—	—
Construction advances to real estate joint ventures	(1,904,464)	—	—
Reimbursement of advances to real estate joint ventures	—	8,651,653	—
Proceeds from sale of shopping center	12,300,000	1,550,000	1,825,000
Net cash flow used for investing activities	(630,228,522)	(280,823,198)	(144,026,692)
Cash flow from financing activities:			
Principal payments on debt, excluding			
normal amortization of rental property debt	(84,056,229)	(4,650,000)	(8,299,980)
Principal payments on rental property debt, net	(4,402,896)	(1,618,255)	(1,267,816)
Proceeds from mortgage financing	281,275,000	—	—
Mortgage financing origination costs	(7,323,495)	—	—
Proceeds from issuance of medium-term notes	290,000,000	100,000,000	—
Repayment of medium term notes	(50,000,000)	—	—
Borrowings under revolving credit facilities	220,000,000	—	—
Repayment of borrowings under revolving credit facilities	(265,000,000)	—	(15,000,000)
Dividends paid	(113,908,071)	(82,561,111)	(69,751,755)
Proceeds from issuance of stock	282,880,710	138,097,895	157,714,972
Redemption of preferred stock	(65,000,000)	—	—
Net cash flow provided by financing activities	484,465,019	149,268,529	63,395,421
Increase (decrease) in cash and cash equivalents	12,942,366	(6,447,028)	21,260,540
Cash and cash equivalents, beginning of year	30,978,178	37,425,206	16,164,666
Cash and cash equivalents, end of year	\$ 43,920,544	\$ 30,978,178	\$ 37,425,206
Supplemental schedule of noncash investing/financing activity:			
Acquisition of real estate interests by issuance of stock and/or assumption of debt	\$ 1,005,712,554	\$ 73,227,224	\$ —
Declaration of dividends paid in succeeding year	\$ 39,444,195	\$ 22,545,806	\$ 18,720,819

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:***Business***

Kimco Realty Corporation (the "Company" or "Kimco"), its subsidiaries, affiliates and related real estate joint ventures are engaged principally in the operation of neighborhood and community shopping centers which are anchored generally by discount department stores, supermarkets or drugstores. Additionally, the Company provides management services for shopping centers owned by affiliated entities and various real estate joint ventures.

The Company seeks to reduce its operating and leasing risks through diversification achieved by the geographic distribution of its properties, avoiding dependence on any single property, and a large tenant base. At December 31, 1998, the Company's single largest neighborhood and community shopping center accounted for only 1.5% of the Company's annualized base rental revenues and only 1.0% of the Company's total shopping center gross leasable area ("GLA"). At December 31, 1998, the Company's five largest tenants include Kmart Corporation, The Home Depot, Kohl's, Toys/Kids R' Us and TJX Companies, which represented approximately 13.7%, 3.0%, 2.5%, 1.8% and 1.5%, respectively, of the Company's annualized base rental revenues.

Principles of Consolidation and Estimates

The accompanying Consolidated Financial Statements include the accounts of the Company, its subsidiaries, all of which are wholly-owned, and all majority-owned partnerships. All significant intercompany balances and transactions have been eliminated in consolidation.

Generally accepted accounting principles require the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results may differ from such estimates. The most significant assumptions and estimates relate to depreciable lives, valuation of real estate and the recoverability of trade accounts receivable.

Real Estate

Real estate assets are stated at cost, less accumulated depreciation and amortization. If there is an event or a change in circumstances that indicates that the basis of the Company's property may not be recoverable, the Company will assess any impairment in value by making a comparison of (i) the current and projected operating cash flows (undiscounted and without interest charges) of the property over its remaining useful life and (ii) the net carrying amount of the property. If the current and

projected operating cash flows (undiscounted and without interest charges) are less than the carrying value of its property, the carrying value would be written down to an amount to reflect the fair value of the property.

Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	15 to 39 years
Fixtures and leasehold improvements	Terms of leases or useful lives, whichever is shorter

Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations are capitalized.

Investments in Real Estate Joint Ventures

Investments in real estate joint ventures are accounted for on the equity method.

Deferred Leasing and Financing Costs

Costs incurred in obtaining tenant leases and long-term financing, included in deferred charges and prepaid expenses in the accompanying Consolidated Balance Sheets, are amortized over the terms of the related leases or debt agreements, as applicable.

Revenue Recognition

Minimum revenues from rental property are recognized on a straight-line basis over the terms of the related leases.

Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return. The Company has made an election to qualify, and believes it is operating so as to qualify, as a Real Estate Investment Trust (a "REIT") for Federal income tax purposes. Accordingly, the Company generally will not be subject to Federal income tax, provided that distributions to its stockholders equal at least the amount of its REIT taxable income as defined under the Code.

Per Share Data

In 1997 the Financial Accounting Standards Board issued Financial Accounting Standards No. 128—"Earnings Per Share". Statement 128 replaced the presentation of primary and fully diluted earnings per share ("EPS") pursuant to Accounting Principles Board Opinion No. 15 with the presentation of basic and diluted EPS. Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares and then shared in the earnings of the Company.

The following table sets forth the reconciliation between basic and diluted weighted average number of shares outstanding for each period:

1998	1997	1996	
Basic EPS—weighted average number of common shares outstanding	50,071,425	37,387,984	35,906,029
Effect of dilutive securities—			
Stock options	569,113	462,076	312,993
Diluted EPS—			
weighted average number of common shares	50,640,538	37,850,060	36,219,022

The effect of the conversion of the Class D Preferred Stock (as defined in Note 3) would have an anti-dilutive effect upon the calculation of net income per common share. Accordingly, the impact of such conversion has not been included in the determination of diluted net income per common share.

New Accounting Pronouncements

During 1998, the Company adopted the provisions of Financial Accounting Standards No. 130—"Reporting Comprehensive Income" ("SFAS 130") which established standards for reporting and displaying comprehensive income and its components and the provisions of Financial Accounting Standards No. 131—"Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") which established standards for reporting information about operating segments. The provisions of SFAS 130 and SFAS 131 had no impact on the accompanying Consolidated Financial Statements.

In 1998 the Financial Accounting Standards Board issued Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which is effective for years beginning after June 15, 1999. The management of the Company believes that the implementation of SFAS 133 will not have a material impact on the Company's consolidated financial statements.

In addition, during 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), and Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), each of which is effective for fiscal years beginning after December 15, 1998. SOP 98-5 requires that certain costs incurred in connection with start-up activities be expensed. SOP 98-1 provides guidance on whether the costs of computer software developed or obtained for internal use should be capitalized or expensed. The management of the Company believes that, when adopted, SOP 98-5 and SOP 98-1 will not have a material impact on the Company's consolidated financial statements.

2. Property Acquisitions:

Shopping Centers—

During the years 1998, 1997 and 1996 certain subsidiaries of the Company acquired real estate interests, in separate transactions, in various shopping center properties at aggregate costs of approximately \$303 million, \$146 million and \$39 million, respectively.

Venture Stores, Inc. Properties Transactions—

During January 1996, certain subsidiaries of the Company entered into two sale-leaseback transactions with Venture Stores, Inc. ("Venture") pursuant to which it acquired fee title to 16 retail properties located in Texas, Iowa, Oklahoma, Illinois and Kansas for a purchase price of \$40 million. Simultaneously, the Company executed two long-term unitary net leases with Venture covering the 16 locations. During July 1997, the Company consented to the modification of these two unitary net lease agreements whereby the Company entered into two unitary net lease agreements with another retailer on 9 of the locations and a new unitary lease with Venture on the remaining 7 locations.

In August 1997, certain subsidiaries of the Company acquired certain real estate assets from Venture consisting of interests in 49 fee and leasehold properties totaling approximately 5.9 million square feet of leasable area located in seven states. The aggregate price was approximately \$130 million, consisting of \$70.5 million in cash and the assumption of approximately \$59.5 million of existing mortgage debt on certain of these properties. Simultaneously with this transaction, the Company entered into a long-term unitary net lease with Venture

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

covering all premises occupied by Venture on these properties. As a result of this transaction, Venture was the primary or sole tenant at 60 of the Company's locations as of December 31, 1997.

In January 1998, Venture filed for protection under Chapter 11 of the United States Bankruptcy Code. On April 27, 1998, Venture announced it would discontinue its retail operations and that it had reached an agreement to sell its leasehold position at 89 locations to the Company, including 56 properties pursuant to two unitary leases already in place with the Company, 30 properties pursuant to a master lease with Metropolitan Life Insurance Company ("Metropolitan Life") and three properties leased by Venture from others. The purchase price for the leasehold positions was \$95.0 million, less certain closing adjustments, but is subject to upward adjustment based on the Company's success in re-tenanting the properties over a two-year period. On July 17, 1998, the Company purchased the leasehold positions with an initial cash payment to Venture of approximately \$50 million. Simultaneous with this transaction, the Company leased 46 of these locations to Kmart Corporation.

The Company also reached an agreement with Metropolitan Life to purchase the 30 fee and leasehold positions which were leased by Metropolitan Life to Venture, for an aggregate purchase price of \$167.5 million. This transaction was completed on July 1, 1998.

During August 1998, the Company acquired from Venture five additional leasehold positions, including two leases already in place with the Company, for an aggregate purchase price of approximately \$2.2 million. Simultaneous with this transaction, the Company leased these five locations, along with five other former Venture locations, to another national retailer.

As of December 31, 1998, the Company has leased substantially all of the vacant space at 76 locations and sold 2 of the locations acquired in the above transactions (See Note 13). The Company is currently negotiating with other major retailers concerning the re-tenanting of the remaining locations.

Retail Property Acquisitions—

During January 1998, the Company, through a partnership interest, acquired fee interest in three properties from a retailer in the Chicago, IL market comprising approximately 516,000 square feet of GLA for a aggregate purchase price of approximately \$23.7 million. These properties include approximately 70,000 square feet of showroom space and adjoining warehouses of approximately 100,000 square feet at each location. Simultaneous with this transaction, the Company leased,

to a national furniture retailer, the showroom portion of each property under individual long-term leases. The Company is currently planning the redevelopment of the warehouse portion of each property.

During August 1996, certain subsidiaries of the Company acquired interests in 16 retail properties, including 2 properties to which the Company and its affiliates already held fee title, for \$21.8 million in cash. These property interests were acquired from a retailer which had elected to discontinue operation of its discount department store division.

These acquisitions have been funded principally through the application of proceeds from the Company's public unsecured debt and equity offerings and proceeds from mortgage financings. (See Notes 7, 8 and 12.)

Other Acquisitions—

During December 1998, the Company acquired a first mortgage on a shopping center in Manhasset, New York for approximately \$21 million and has entered into a contract to acquire fee title to this property.

3. Price REIT Merger:

On January 13, 1998, the Company, REIT Sub, Inc., a Maryland corporation and a wholly owned subsidiary of the Company ("Merger Sub") and The Price REIT, Inc., a Maryland corporation, ("Price REIT"), signed a definitive Agreement and Plan of Merger dated January 13, 1998, as amended March 5, 1998 and May 14, 1998, (the "Merger Agreement"). On June 19, 1998, upon approval by the shareholders of the Company and the shareholders of Price REIT, Price REIT was merged into Merger Sub, whereupon the separate existence of Price REIT ceased (the "Merger"). For financial reporting purposes, the Merger was accounted for using the purchase method of accounting.

Prior to the Merger, Price REIT was a self-administered and self-managed equity REIT that was primarily focused on the acquisition, development, management and redevelopment of large community shopping center properties concentrated in the western part of the United States. In connection with the Merger, the Company acquired interests in 43 properties, consisting of 39 retail community centers, one stand-alone retail warehouse, one project under development and two undeveloped land parcels, located in 17 states containing approximately 8.0 million square feet of GLA. The overall occupancy rate of the retail community centers was 98%.

In connection with the Merger, holders of Price REIT common stock received one share of Kimco common stock and 0.36 shares of Kimco Class D Depositary Shares

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

(the "Class D Depositary Shares"), each Class D Depositary Share representing a one-tenth fractional interest in a new issue of Kimco 7.5% Cumulative Convertible Preferred Stock, par value \$1.00 per share (the "Class D Preferred Stock"), for each share of Price REIT common stock. On June 19, 1998, the Company issued 11,921,992 shares of its common stock and 429,159 shares of Class D Preferred Stock (represented by 4,291,590 Class D Depositary Shares) in connection with the Merger. Additionally, in connection with the Merger, the Company issued 65,000 shares of a new issue of Kimco Class E Floating Rate Cumulative Preferred Stock, par value \$1.00 per share ((the "Class E Preferred Stock"), represented by 650,000 Class E Depositary Shares, (the "Class E Depositary Shares")), each Class E Depositary Share representing a one-tenth fractional interest in the Class E Preferred Stock. The Class E Preferred Stock was redeemable at the option of the Company for 150 days after its issuance at a price equal to the liquidation preference of \$1,000 per share plus accrued and unpaid dividends. The Company exercised its option in November 1998 to redeem all of the Class E Preferred Stock for \$65.065 million representing the liquidation preference of \$65 million and approximately \$65,000 of accrued dividends (See Note 12).

The total Merger consideration was approximately \$960 million, including the assumption of approximately \$310 million of debt. Management has allocated the purchase price based on the fair value of assets and liabilities assumed. Such allocations are based on preliminary estimates, and are subject to revision.

4. Investment in Retail Store Leases:

The Company has interests in various retail store leases relating to the anchor store premises in neighborhood and community shopping centers. These premises have been substantially sublet to retailers which lease the stores pursuant to net lease agreements. Income from the investment in these retail store leases during the years ended December 31, 1998 and 1997 was approximately \$3.7 million and \$3.6 million, respectively. These amounts represent sublease revenues during the years ended December 31, 1998 and 1997 of approximately \$20.2 million and \$20.9 million, respectively, less related expenses of \$14.9 million and \$15.2 million, respectively, and an amount, which in management's estimate, reasonably provides for the recovery of the investment over a period representing the expected remaining term of the retail store leases. The Company's future minimum revenues under the terms of all noncancelable tenant subleases and future minimum obligations through the

remaining terms of its retail store leases, assuming no new or renegotiated leases are executed for such premises, for future years are as follows (in millions of dollars): 1999, \$18.3 and \$13.7; 2000, \$17.1 and \$12.5; 2001, \$13.9 and \$10.1; 2002, \$10.3 and \$7.3; 2003, \$7.0 and \$4.5 and thereafter, \$8.7 and \$1.7, respectively.

5. Investments and Advances in Real Estate Joint Ventures:

The Company and its subsidiaries have investments in and advances to various real estate joint ventures. These joint ventures are engaged primarily in the operation of shopping centers which are either owned or held under long-term operating leases.

During 1998, in connection with the Merger, the Company acquired two additional joint venture interests. The Company also invested approximately \$19.0 million in a partnership which has acquired and leased-back 11 automotive dealerships and invested approximately \$3.6 million in a partnership which acquired a shopping center for approximately \$34 million, including mortgage debt of approximately \$27 million. The Company has a 50% interest in each of these partnerships.

Summarized financial information for the recurring operations of these real estate joint ventures is as follows (in millions of dollars):

	December 31,	
	1998	1997
Assets:		
Real estate, net	\$168.2	\$ 58.3
Other assets	20.3	7.8
	\$188.5	\$ 66.1
Liabilities and Partners'		
Capital/(Deficit):		
Mortgages payable	\$104.3	\$ 63.5
Other liabilities	24.7	19.7
Partners' Capital/(Deficit)	59.5	(17.1)
	\$188.5	\$ 66.1

	Year Ended December 31,		
	1998	1997	1996
Revenues from			
rental property	\$26.8	\$14.8	\$11.2
Operating expenses	(9.7)	(3.6)	(2.9)
Mortgage interest	(6.2)	(3.1)	(2.5)
Depreciation and amortization	(2.9)	(2.2)	(2.2)
Other, net	.1	(1.8)	(1.3)
Net income	\$ 8.1	\$ 4.1	\$ 2.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

Other liabilities in the accompanying Consolidated Balance Sheets include accounts with certain real estate joint ventures totaling approximately \$5.0 million and \$5.1 million at December 31, 1998 and 1997, respectively. The Company and its subsidiaries have varying equity interests in these real estate joint ventures which may differ from their proportionate share of net income or loss recognized in accordance with generally accepted accounting principles.

6. Cash and Cash Equivalents:

Cash and cash equivalents (demand deposits in banks, commercial paper and certificates of deposit with original maturities of three months or less) includes tenants' security deposits, escrowed funds and other restricted deposits approximating \$.1 million and \$10.1 million at December 31, 1998 and 1997, respectively.

Cash and cash equivalent balances may, at a limited number of banks and financial institutions, exceed insurable amounts. The Company believes it mitigates its risks by investing in or through major financial institutions. Recoverability of investments is dependent upon the performance of the issuers.

7. Notes Payable:

The Company has implemented a \$200 million unsecured medium-term notes ("MTN") program pursuant to which it may, from time to time, offer for sale its senior unsecured debt for any general corporate purposes, including (i) funding specific liquidity requirements in its business, including property acquisition, development and redevelopment costs, and (ii) managing the Company's debt maturities.

During June and July 1998, the Company issued an aggregate \$130 million of fixed-rate unsecured medium-term notes under its MTN program (the "June and July MTNS"). The June and July MTNs mature in June 2005 and July 2006, respectively, and bear interest at 6.73% and 6.93% per annum, respectively. Interest on these notes is payable semi-annual in arrears.

As of December 31, 1998, a total principal amount of \$290.25 million, including the June and July MTNs, in fixed-rate senior unsecured MTNs had been issued under the MTN program primarily for the acquisition of neighborhood and community shopping centers and the expansion and improvement of properties in the Company's portfolio. These fixed-rate notes had maturities ranging from seven to twelve years at the time of issuance and bear interest at rates ranging from 6.70%

to 7.91%. Interest on these fixed-rate senior unsecured notes is payable semi-annually in arrears.

During August 1998, the Company issued \$60 million of floating-rate MTNs which mature in August 2000 and bear interest at LIBOR plus .15% per annum. The interest rate resets quarterly and is payable quarterly in arrears. Concurrent with the issuance of these MTN's, the Company entered into an interest rate swap agreement for the term of these MTNs, which effectively fixed the interest rate at 5.91% per annum. The proceeds from this MTN issuance were used to prepay certain mortgage loans with a principal amount of approximately \$57 million bearing interest at 10.54% per annum plus prepayment premiums of approximately \$4.9 million (See Note 9).

Additionally during August 1998, the Company issued \$100 million of remarketed reset notes under its MTN program. The remarketed reset notes mature in August 2008 and bear interest initially at a floating rate of LIBOR plus .30% per annum. After an initial period of one year, the interest rate spread applicable to each subsequent period will be determined pursuant to a remarketing agreement between the Company and a financial institution. The interest rate resets quarterly and is payable quarterly in arrears. Concurrent with this issuance, the Company entered into an interest rate swap agreement which effectively fixed the interest rate at 5.92% per annum during the initial one-year period. The proceeds from the MTN issuance were used, in part, to repay \$50 million MTNs that matured in July 1998.

In connection with the Price REIT Merger, the Company assumed \$205 million of fixed-rate unsecured senior notes consisting of: (i) \$50 million which mature in June 2004 and bear interest at 7.125%, (ii) \$55 million which mature November 2006 and bear interest at 7.5% and (iii) \$100 million which mature November 2000 and bear interest at 7.25% (collectively, "the Price REIT Notes"). Interest is payable on the Price REIT Notes semi-annually in arrears.

As of December 31, 1998, the Company had outstanding \$100 million in floating rate senior notes due 1999 bearing interest at LIBOR plus .50%. Interest on these floating-rate, senior unsecured notes resets quarterly and is payable quarterly in arrears. During 1998, the Company entered into an interest rate swap agreement which effectively fixed the interest rate at 6.165% per annum for the remaining term of these notes (See Note 18).

As of December 31, 1998, the Company had \$100 million in 6.5% fixed-rate unsecured Senior Notes due 2003. Interest on these senior unsecured notes is paid semi-annually in arrears.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

The scheduled maturities of all unsecured senior notes payable as of December 31, 1998, are approximately as follows (in millions of dollars): 1999, \$100.0; 2000, \$160.0; 2003, \$100.0 and thereafter, \$495.25.

In accordance with the terms of the Indenture, as amended, pursuant to which the Company's senior, unsecured notes have been issued, the Company is (a) subject to maintaining certain maximum leverage ratios on both unsecured senior corporate and secured debt, minimum debt service coverage ratios and minimum equity levels, and (b) restricted from paying dividends in amounts that exceed by more than \$26 million the funds from operations, as defined, generated through the end of the calendar quarter most recently completed prior to the declaration of such dividend; however, this dividend limitation does not apply to any distributions necessary to maintain the Company's qualification as a REIT providing the Company is in compliance with its total leverage limitations.

The Company maintains a \$215 million, unsecured revolving credit agreement with a group of banks. Borrowings under this facility are available for general corporate purposes, including the funding of property acquisitions, development and redevelopment costs. Interest on borrowings accrues at a spread (currently .50%) to LIBOR or money-market rates, as applicable, which fluctuates in accordance with changes in the Company's senior debt ratings. A fee approximating .20% per annum is payable on that portion of the facility which remains unused. Pursuant to the terms of the agreement, the Company, among other things, is (a) subject to maintaining certain maximum leverage ratios on both unsecured senior corporate and secured debt, a minimum debt service coverage ratio and minimum unencumbered asset and equity levels, and (b) restricted from paying dividends in amounts that exceed 90% of funds from operations, as defined, plus 10% of the Company's stockholders' equity determined in accordance with generally accepted accounting principles. There were no borrowings outstanding under this facility at December 31, 1998. This revolving credit facility is scheduled to expire in August 2001.

8. Mortgages Payable:

During 1998, the Company obtained mortgage financing aggregating approximately \$272.3 million on 20 of its properties. These mortgages are non-recourse, non-cross collateralized, ten-year fixed-rate first mortgages, bearing interest at a weighted average rate of 6.585% per annum over the term of the loans. The proceeds from the mortgages were used primarily for the acquisition of neighborhood and community shopping centers.

In addition, the Company, through an affiliated entity, obtained mortgage financing of approximately \$9 million on two other properties. These ten-year fixed-rate mortgages bear interest at 7% per annum for the term of the loans.

Mortgages payable, collateralized by certain shopping center properties and related tenants' leases, are generally due in monthly installments of principal and/or interest which mature at various dates through 2023. Interest rates range from approximately 6.57% to 10.5% (weighted average interest rate of 7.27% as of December 31, 1998). The scheduled maturities of all mortgages payable as of December 31, 1998, are approximately as follows (in millions of dollars): 1999, \$28.8; 2000, \$16.5; 2001, \$4.8; 2002, \$8.0; 2003, \$6.0 and thereafter, \$370.2.

Three of the Company's properties are encumbered by approximately \$13.5 million in floating-rate, tax-exempt mortgage bond financing. The rates on the bonds are reset annually, at which time bondholders have the right to require the Company to repurchase the bonds. The Company has engaged a remarketing agent for the purpose of offering for resale those bonds that are tendered to the Company. All bonds tendered for redemption in the past have been remarketed and the Company has arrangements, including letters of credit, with banks to both collateralize the principal amount and accrued interest on such bonds and to fund any repurchase obligations.

9. Extraordinary Items:

During 1998, the Company prepaid certain mortgage loans resulting in extraordinary charges of approximately \$4.9 million, or, on a per-basic share and diluted share basis, \$.10 and \$.09, respectively, representing the premiums paid and other costs written-off in connection with the early satisfaction of these mortgage loans.

10. KC Holdings, Inc.:

To facilitate the Company's November 1991 initial public stock offering (the "IPO"), forty-six shopping center properties and certain other assets, together with indebtedness related thereto, were transferred to subsidiaries of KC Holdings, Inc. ("KC Holdings"), a newly-formed corporation that is owned by the stockholders of the Company prior to the IPO. The Company continues to manage eighteen of these shopping center properties and was granted ten-year, fixed-price options to reacquire the real estate assets owned by KC Holdings' subsidiaries, subject to any liabilities outstanding with respect to such assets at the time of an option exercise. As of December 31, 1998, KC Holdings' subsidiaries had

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

conveyed 14 shopping centers back to the Company and had disposed of ten additional centers in transactions with third parties. The members of the Company's Board of Directors who are not also shareholders of KC Holdings unanimously approved the purchase of each of the 14 shopping centers that have been reacquired by the Company from KC Holdings.

Selected financial information for the twenty-two property interests owned by KC Holdings' subsidiaries as of and for the year ended December 31, 1998, is as follows: Real estate, net of accumulated depreciation and amortization, \$54.7 million; Notes and mortgages payable, \$58.8 million; Revenues from rental property, \$11.7 million; Income from rental operations, \$.3 million, after depreciation and amortization deductions of \$2.1 million; Income adjustment for real estate joint ventures, net, \$.6 million.

11. Fair Value Disclosure of Financial Instruments:

All financial instruments of the Company are reflected in the accompanying Consolidated Balance Sheets at amounts which, in management's estimation based upon an interpretation of available market information and valuation methodologies (including discounted cash flow analyses with regard to fixed rate debt) considered appropriate, reasonably approximate their fair values. Such fair value estimates are not necessarily indicative of the amounts that would be realized upon disposition of the Company's financial instruments.

12. Preferred and Common Stock Issuances:

During April and May 1998, the Company completed the sale of an aggregate 3,039,507 shares of common stock in five separate transactions consisting of (i) a primary public stock offering of 460,000 shares of common stock priced at \$36.0625 per share, and (ii) four direct placements of 415,945 shares, 546,075 shares, 837,000 shares and 780,487 shares of common stock priced at \$36.0625, \$36.625, \$36.25 and \$38.4375 per share, respectively. The shares of common stock sold in the direct placements were deposited in separate unit investment trusts. The net proceeds from these offerings totaled approximately \$106.0 million, after related transaction costs of approximately \$5.9 million.

During July 1998, the Company completed the sale of an aggregate 1,315,498 shares of common stock in three separate transactions consisting of (i) a primary public stock offering of 510,000 shares of common stock priced at \$39.4375 per share and (ii) two direct placements of 375,000 and 430,498 shares of common stock priced at \$38.2575 and \$38.56 per share, respectively. The net

proceeds from these offerings totaled approximately \$49.9 million, after related transaction costs of approximately \$1.2 million.

During September 1998, the Company completed the sale of an aggregate 750,000 shares of common stock priced at \$38.75 per share in a primary public stock offering. In addition, during October 1998, the Company sold an additional 112,500 shares of common stock pursuant to an election by the underwriter to exercise, in full, their over-allotment option. The net proceeds from these sales of common stock totaled approximately \$31.6 million, after related transaction costs of approximately \$1.8 million.

During November 1998, the Company completed the sale of an aggregate 1,395,000 shares of common stock in four separate transactions consisting of primary public stock offerings of 650,000 shares, 170,000 shares, 475,000 shares and 100,000 shares of common stock priced at \$39.6875, \$39.6875, \$39.00 and \$39.00 per share, respectively. The net proceeds from these sales of common stock totaled approximately \$52.4 million after related transaction costs of approximately \$2.5 million.

During December 1998, the Company completed the sale of an aggregate 1,005,800 shares of common stock in three direct placements. The transactions were each priced at \$38.25 per share and provided net proceeds to the Company of approximately \$38.4 million, after related transaction costs of approximately \$.1 million.

On September 30, 1997, the Company completed a primary public stock offering of 4,000,000 shares of common stock at \$35.50 per share. The net proceeds from this sale of common stock totaled approximately \$134.5 million, after related transaction costs of approximately \$7.5 million.

The net proceeds from these common stock offerings have been used for general corporate purposes, including the acquisition of neighborhood and community shopping centers, the expansion and improvement of certain properties in the Company's portfolio, and the redemption of the Class E Preferred Stock issued in connection with the Merger.

During June 1998, in connection with the Merger, the Company issued 4,291,590 Class D Depositary Shares (each such depositary share representing a one-tenth fractional interest in the Class D Preferred Stock) and 650,000 Class E Depositary Shares (each depositary share representing a one-tenth fractional interest in the Class E Preferred Stock). During November 1998, the Company exercised its option to redeem all of the Class E Preferred Stock (represented by the Class E Depositary Shares). (See Note 3.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Dividends on the Class D Depositary Shares are cumulative and payable at the rate per depositary share equal to the greater of (i) 7.5% per annum based upon a \$25 per share initial value or \$1.875 per share or (ii) the cash dividend on the shares of the Company's common stock into which a Class D Depositary Share is convertible plus \$0.0275 per quarter. The Class D Depositary Shares are convertible into the Company's common stock at a conversion price of \$40.25 per share of common stock at any time by the holder and may be redeemed by the Company at the conversion price in shares of the Company's common stock at any time after June 19, 2001 if, for any 20 trading days within any period of 30 consecutive trading days, including the last day of such period, the average closing price per share of the Company's common stock exceeds 120% of the conversion price or \$48.30 per share, subject to certain adjustments.

The dividend rate on the Class E Preferred Stock (represented by the Class E Depositary Shares) was equal to LIBOR plus 2% per annum, adjusted quarterly, and had an initial dividend rate of 7.68% per annum.

The Class D Preferred Stock (represented by the Class D Depositary Shares outstanding) ranks pari passu with the Company's 7-3/4% Class A Cumulative Redeemable Preferred Stock, 8-1/2% Class B Cumulative Redeemable Preferred Stock and the 8-3/8% Class C Cumulative Redeemable Preferred Stock as to voting rights, priority for receiving dividends and liquidation preferences as set forth below.

At December 31, 1998, the Company has outstanding 3,000,000 Depositary Shares (the "Class A Depositary Shares"), each such Class A Depositary Share representing a one-tenth fractional interest of a share of the Company's 7-3/4% Class A Cumulative Redeemable Preferred Stock, par value \$1.00 per share (the "Class A Preferred Stock"), 2,000,000 Depositary Shares (the "Class B Depositary Shares"), each such Class B Depositary Share representing a one-tenth fractional interest of a share of the Company's 8-1/2% Class B Cumulative Redeemable Preferred Stock, par value \$1.00 per share (the "Class B Preferred Stock"), 4,000,000 Depositary Shares ("the Class C Depositary Shares"), each such Class C Depositary Share representing a one-tenth fractional interest of a share of the Company's 8-3/8% Class C Cumulative Redeemable Preferred Stock, par value \$1.00 per share (the "Class C Preferred Stock").

Dividends on the Class A Depositary Shares are cumulative and payable quarterly in arrears at the rate of 7-3/4% per annum based on the \$25 per share initial offering price, or \$1.9375 per depositary share. The Class A

Depositary Shares are redeemable, in whole or in part, for cash on or after September 23, 1998 at the option of the Company, at a redemption price of \$25 per depositary share, plus any accrued and unpaid dividends thereon. The Class A Depositary Shares are not convertible or exchangeable for any other property or securities of the Company. The Class A Preferred Stock (represented by the Class A Depositary Shares outstanding) ranks pari passu with the Company's Class B Preferred Stock, Class C Preferred Stock and Class D Preferred Stock as to voting rights, priority for receiving dividends and liquidation preferences as set forth below.

Dividends on the Class B Depositary Shares are cumulative and payable quarterly in arrears at the rate of 8-1/2% per annum based on the \$25 per share initial offering price, or \$2.125 per depositary share. The Class B Depositary Shares are redeemable, in whole or in part, for cash on or after July 15, 2000 at the option of the Company at a redemption price of \$25 per depositary share, plus any accrued and unpaid dividends thereon. The redemption price of the Class B Preferred Stock may be paid solely from the sale proceeds of other capital stock of the Company, which may include other classes or series of preferred stock. The Class B Depositary Shares are not convertible or exchangeable for any other property or securities of the Company. The Class B Preferred Stock (represented by the Class B Depositary Shares outstanding) ranks pari passu with the Company's Class A Preferred Stock, Class C Preferred Stock and Class D Preferred Stock as to voting rights, priority for receiving dividends and liquidation preferences as set forth below.

Dividends on the Class C Depositary Shares are cumulative and payable quarterly in arrears at the rate of 8-3/8% per annum based on the \$25 per share initial offering price, or \$2.0938 per depositary share. The Class C Depositary Shares are redeemable, in whole or in part, for cash on or after April 15, 2001 at the option of the Company at a redemption price of \$25 per depositary share, plus any accrued and unpaid dividends thereon. The redemption price of the Class C Preferred Stock may be paid solely from the sale proceeds of other capital stock of the Company, which may include other classes or series of preferred stock. The Class C Depositary Shares are not convertible or exchangeable for any other property or securities of the Company. The Class C Preferred Stock (represented by the Class C Depositary Shares outstanding) ranks pari passu with the Company's Class A Preferred Stock, Class B Preferred Stock and Class D Preferred Stock as to voting rights, priority for receiving dividends and liquidation preferences as set forth below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Voting Rights—As to any matter on which the Class A Preferred Stock, Class B Preferred Stock, Class C Preferred Stock and Class D Preferred Stock (collectively, the "Preferred Stock") may vote, including any action by written consent, each share of Preferred Stock shall be entitled to 10 votes, each of which 10 votes may be directed separately by the holder thereof. With respect to each share of Preferred Stock, the holder thereof may designate up to 10 proxies, with each such proxy having the right to vote a whole number of votes (totaling 10 votes per share of Preferred Stock). As a result, each Class A, each Class B, each Class C and each Class D Depositary Share is entitled to one vote.

Liquidation Rights—In the event of any liquidation, dissolution or winding up of the affairs of the Company, the Preferred Stock holders are entitled to be paid, out of the assets of the Company legally available for distribution to its stockholders, a liquidation preference of \$250.00 per share (\$25 per Class A, Class B, Class C and Class D Depositary Share, respectively), plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of the Company's common stock or any other capital stock that ranks junior to the Preferred Stock as to liquidation rights.

13. Dispositions of Real Estate:

During January 1998, the Company disposed of a property in Pinellas Park, Florida. Proceeds from the disposition totaling approximately \$2.3 million, together with an additional \$7.1 million cash investment, were used to acquire an exchange shopping center property located in Cranston, Rhode Island.

During December 1998, the Company disposed of a vacant distribution center and adjacent facility located in O'Fallon, Missouri, which were acquired as part of the Venture transactions, for \$10 million, which amount approximated their net book value.

14. Transactions with Related Parties:

The Company provides management services for shopping centers owned principally by affiliated entities and various real estate joint ventures in which certain stockholders of the Company have economic interests.

Such services are performed pursuant to management agreements which provide for fees based upon a percentage of gross revenues from the properties and other direct costs incurred in connection with management

of the centers. The Consolidated Statements of Income include management fee income from KC Holdings of approximately \$.6 million during each of the three years ending December 31, 1998, 1997 and 1996.

Reference is made to Notes 5 and 10 for additional information regarding transactions with related parties.

15. Commitments and Contingencies:

The Company and its subsidiaries are engaged in the operation of shopping centers which are either owned or held under long-term leases which expire at various dates through 2076. The Company and its subsidiaries, in turn, lease premises in these centers to tenants pursuant to lease agreements which provide for terms ranging generally from 5 to 25 years and for annual minimum rentals plus incremental rents based on operating expense levels and tenants' sales volumes. Annual minimum rentals plus incremental rents based on operating expense levels comprised approximately 98%, 98% and 97% of total revenues from rental property for the years ended December 31, 1998, 1997 and 1996, respectively.

The future minimum revenues from rental property under the terms of all noncancelable tenant leases, assuming no new or renegotiated leases are executed for such premises, for future years are approximately as follows (in millions of dollars): 1999, \$337.1; 2000, \$319.2; 2001, \$297.3; 2002, \$276.1; 2003, \$253.5 and thereafter, \$2,321.6.

Minimum rental payments under the terms of all noncancelable operating leases pertaining to its shopping center portfolio for future years are approximately as follows (in millions of dollars): 1999, \$13.5; 2000, \$12.9; 2001, \$11.6; 2002, \$10.7; 2003, \$9.6 and thereafter \$169.1.

16. Incentive Plans:

The Company maintains a stock option plan (the "Plan") pursuant to which a maximum 6,000,000 shares of the Company's common stock may be issued for qualified and non-qualified options. Options granted under the Plan generally vest ratably over a three-year term, expire ten years from the date of grant and are exercisable at the market price on the date of grant, unless otherwise determined by the Board in its sole discretion. In addition, the Plan provides for the granting of certain options to each of the Company's non-employee directors (the "Independent Directors") and permits such Independent Directors to elect to receive deferred stock awards in lieu of directors' fees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Information with respect to stock options under the Plan for the years ended December 31, 1998, 1997 and 1996 is as follows:

	Shares	Weighted Average Exercise Price Per Share
Options outstanding, December 31, 1995	1,452,228	\$21.44
Exercised	(163,582)	\$19.36
Granted	<u>315,500</u>	<u>\$28.32</u>
Options outstanding, December 31, 1996	1,604,146	\$23.01
Exercised	(179,750)	\$20.94
Granted	<u>470,700</u>	<u>\$31.72</u>
Options outstanding, December 31, 1997	1,895,096	\$25.37
Exercised	(150,766)	\$20.99
Granted	<u>1,023,500</u>	<u>\$37.32</u>
Options outstanding, December 31, 1998	<u>2,767,830</u>	<u>\$30.03</u>
Options exercisable—		
December 31, 1996	954,175	\$20.84
December 31, 1997	1,126,093	\$22.39
December 31, 1998	1,326,224	\$24.13

The exercise prices for options outstanding as of December 31, 1998 range from \$13.33 to \$39.94 per share. The weighted average remaining contractual life for options outstanding as of December 31, 1998 was approximately 7.8 years. Options to purchase 2,316,420, 329,673 and 800,373 shares of the Company's common stock were available for issuance under the Plan at December 31, 1998, 1997 and 1996, respectively.

The Company has elected to adopt the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation".

Accordingly, no compensation cost has been recognized with regard to options granted under the Plan in the accompanying Consolidated Statements of Income. If stock-based compensation costs had been recognized based on the estimated fair values at the dates of grant for options awarded during 1998, 1997 and 1996 net income and net income per common share for these calendar years would have been reduced by approximately \$1.4 million or \$.03 per basic share, \$.7 million, or \$.02 per basic share and \$.4 million, or \$.01 per basic share, respectively.

These pro forma adjustments to net income and net income per basic common share assume fair values of each option grant estimated using the Black-Scholes option pricing formula. The more significant assumptions underlying the determination of such fair values for options granted during 1998, 1997 and 1996 include: (i) weighted average risk-free interest rates of 5.07%, 6.18% and 6.24%, respectively; (ii) weighted average expected option lives of 5.6 years, 8.2 years and 7.25 years, respectively; (iii) an expected volatility of 15.76%, 15.65% and 15.79%, respectively, and (iv) an expected dividend yield of 6.40%, 6.44% and 6.82%, respectively. The per share weighted average fair value at the dates of grant for options awarded during 1998, 1997 and 1996 was \$2.86, \$3.02 and \$2.50, respectively.

The Company maintains a 401(k) retirement plan covering substantially all officers and employees which permits participants to defer up to a maximum 10% of their eligible compensation. This deferred compensation, together with Company matching contributions which generally equal employee deferrals up to a maximum of 5%, is fully vested and funded as of December 31, 1998. Company contributions to the plan totaled less than \$.3 million for each of the years ended December 31, 1998, 1997 and 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

17. Supplemental Financial Information:

The following represents the results of operations, expressed in thousands except per share amounts, for each quarter during years 1998 and 1997.

	1998 (Unaudited)			
	Mar. 31	June 30	Sept. 30	Dec. 31
Revenues from rental property	\$63,112	\$69,341	\$98,085	\$108,260
Income before extraordinary items	\$25,484	\$27,530	\$36,107	\$ 38,046
Net income	\$25,484	\$27,530	\$31,255	\$ 37,997
Per common Share:				
Income before extraordinary items:				
Basic	\$.52	\$.51	\$.50	\$.53
Diluted	\$.51	\$.50	\$.49	\$.52
Net income:				
Basic	\$.52	\$.51	\$.41	\$.53
Diluted	\$.51	\$.50	\$.41	\$.52
	1997 (Unaudited)			
	Mar. 31	June 30	Sept. 30	Dec. 31
Revenues from rental property	\$ 45,195	\$ 45,276	\$ 50,823	\$ 57,635
Net income	\$ 20,604	\$ 21,045	\$ 20,641	\$ 23,546
Net income, per common share:				
Basic	\$.44	\$.45	\$.44	\$.47
Diluted	\$.44	\$.45	\$.43	\$.46

Interest paid during years 1998, 1997 and 1996 approximated \$60.7 million, \$29.9 million and \$26.9 million, respectively.

Accounts and notes receivable in the accompanying Consolidated Balance Sheets are net of estimated unrecoverable amounts of approximately \$3.2 million and \$1.8 million, respectively, at December 31, 1998 and 1997.

18. Subsequent Events:

Property Acquisitions/Dispositions

In January and February 1999, the Company acquired five neighborhood and community shopping center properties comprising approximately .7 million square feet of GLA in four states for an aggregate price of approximately \$79.0 million, including the assumption of \$8.5 million of mortgage debt encumbering one of the properties.

During February 1999, the Company disposed of a property in Morrisville, Pennsylvania. Cash proceeds from the disposition totaling \$1.6 million approximated its net book value.

Financings

During February 1999, the Company issued \$130 million of 6-7/8% fixed-rate Senior Notes due 2009. Interest on the notes is payable semi-annually in arrears. The notes were sold at 99.85% of par value. Net proceeds from the issuance totaling approximately \$128.9 million, after related transaction costs of approximately \$.9 million, were used, in part, to repay \$100 million floating-rate senior notes that matured during February 1999 and for general corporate purposes.

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(CONTINUED)

19. Pro Forma Financial Information (Unaudited):

As discussed in Notes 2, 3 and 13, the Company and certain of its subsidiaries acquired and disposed of interests in shopping center properties during 1998. The pro forma financial information set forth below is based upon the Company's historical Consolidated Statements of Income for the years ended December 31, 1998 and 1997, adjusted to give effect to these transactions as of January 1, 1997.

The pro forma financial information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the transactions occurred on January 1, 1997, nor does it purport to represent the results of operations for

future periods. (Amounts presented in millions of dollars, except per share figures.)

Years Ended December 31,	1998	1997
Revenues from rental property	\$410.0	\$349.4
Income before extraordinary items	\$149.1	\$139.8
Net income	\$144.2	\$139.8
Per common share:		
Income before extraordinary items:		
Basic	\$ 2.13	\$ 2.20
Diluted	\$ 2.11	\$ 2.18
Net income:		
Basic	\$ 2.04	\$ 2.20
Diluted	\$ 2.02	\$ 2.18

KIMCO REALTY CORPORATION AND SUBSIDIARIES
C O R P O R A T E D I R E C T O R Y

Directors

Martin S. Kimmel
Chairman (Emeritus) of the Board

Milton Cooper
Chairman of the Board

Michael J. Flynn
Vice Chairman of the Board

Richard G. Dooley
Executive Vice President and
Chief Investment Officer—Retired
Massachusetts Mutual
Life Insurance Company

Joe Grills
Chief Investment Officer—Retired
IBM Retirement Funds

Joseph K. Kornwasser
Senior Executive Vice President

Frank Lourenso
Executive Vice President
The Chase Manhattan Bank

Officers

Milton Cooper
Chairman and Chief Executive Officer

Michael J. Flynn
Vice Chairman and President

Glenn G. Cohen
Treasurer

Joseph V. Denis
Vice President, Construction

Jerald Friedman
Executive Vice President

Bruce M. Kauderer
Vice President, Legal
General Counsel and Secretary

Joseph K. Kornwasser
Senior Executive Vice President

Lawrence Kronenberg
Vice President

Michael V. Pappagallo
Chief Financial Officer

Alex Weiss
Vice President,
Management Information Systems

Executive Offices

3333 New Hyde Park Road
Suite 100
New Hyde Park, NY 11042
516-869-9000

Regional Offices

Boca Raton, FL
561-477-5818

Charlotte, NC
704-367-0131

Chicago, IL
847-480-2786

Cleveland, OH
216-595-5400

Dallas, TX
214-692-3581

Dayton, OH
937-434-5421

Los Angeles, CA
323-937-8200

Orlando, FL
407-834-7004

Philadelphia, PA
215-322-2750

Tampa, FL
727-536-3287

Counsel

Latham & Watkins
New York, NY

Auditors

PricewaterhouseCoopers LLP
New York, NY

Registrar and Transfer Agent

BankBoston, N.A.
c/o EquiServe, L.P.
P.O. Box 8040
Boston, MA 02266-8040
781-575-3400
<http://www.equiserve.com>

Stock Listings

NYSE—Symbols KIM, KIMpra, KIMprB,
KIMprC, KIMprD

Annual Report—Form 10-K

A copy of the Company's Annual Report to the U.S. Securities and Exchange Commission on Form 10-K may be obtained at no cost to stockholders by writing to:

Investor Relations
Kimco Realty Corporation
3333 New Hyde Park Road
Suite 100
New Hyde Park, NY 11042

Annual Meeting of Stockholders

Stockholders of Kimco Realty Corporation are cordially invited to attend the 1999 Annual Meeting of Stockholders scheduled to be held on May 20, 1999 at 270 Park Avenue, New York, New York, Floor 11, Room C at 10:00 a.m..

Dividend Reinvestment and Common Stock Purchase Plan

The Company's Dividend Reinvestment and Common Stock Purchase Plan provides common and preferred stockholders with an opportunity to conveniently and economically acquire Kimco common stock. Stockholders may have their dividends automatically directed to our transfer agent to purchase common shares without paying any brokerage commissions. Requests for booklets describing the Plan, enrollment forms and any correspondence or questions regarding the Plan should be directed to:

BankBoston, N.A.
c/o EquiServe, L.P.
Dividend Reinvestment
P.O. Box 8040
Boston, MA 02266-8040

Holders of Record

Holders of record of the Company's common stock, par value \$.01 per share, totaled 1552 as of March 1, 1999.



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