Urban Edge Properties
Form 10-Q
August 12, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2015
OR

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

For the transition period from __________to__________
Commission File Number: 001-36523
URBAN EDGE PROPERTIES
(Exact name of Registrant as specified in its charter)

Maryland	47-6311266
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
888 Seventh Avenue, New York, New York	10019
(Address of Principal Executive Offices)	(Zip Code)
Registrant’s telephone number including area code:	(212) 956 2556
Securities registered pursuant to Section 12(b) of the Act:	
Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, $.01 par value per share	New York Stock Exchange

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

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer o	Non-Accelerated Filer x (Do not check if smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

As of July 31, 2015, the registrant had 99,285,160 common shares outstanding.

URBAN EDGE PROPERTIES
QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED JUNE 30, 2015

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements
URBAN EDGE PROPERTIES
CONSOLIDATED AND COMBINED BALANCE SHEETS
(Unaudited, amounts in thousands, except share and per share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Real estate, at cost:		
Land	$374,543	$378,096
Buildings and improvements	1,612,112	1,632,228
Construction in progress	49,349	8,545
Furniture, fixtures and equipment	3,930	3,935
Total	2,039,934	2,022,804
Accumulated depreciation and amortization	(489,256)	(467,503)
Real estate, net	1,550,678	1,555,301
Cash and cash equivalents	193,355	2,600
Cash held in escrow and restricted cash	10,792	9,967
Tenant and other receivables, net of allowance for doubtful accounts of $2,197 and $2,432, respectively	15,201	11,424
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of $121 and $0, respectively	88,966	89,199
Identified intangible assets, net of accumulated amortization of $21,775 and $20,672, respectively	33,416	34,775
Deferred leasing costs, net of accumulated amortization of $12,632 and $12,121, respectively	17,205	17,653
Deferred financing costs, net of accumulated amortization of $6,812 and $6,813, respectively	12,284	10,353
Prepaid expenses and other assets	7,525	10,257
Total assets	$1,929,422	$1,741,529
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable	$1,250,031	$1,288,535
Identified intangible liabilities, net of accumulated amortization of $66,168 and $62,395, respectively	156,536	160,667
Accounts payable and accrued expenses	31,968	26,924
Other liabilities	11,889	6,540
Total liabilities	1,450,424	1,482,666
Commitments and contingencies		
Shareholders’ equity:		
Common shares: $0.01 par value; 500,000,000 shares authorized and 99,285,160 shares issued and outstanding	993	—
Additional paid-in capital	477,596	—
Accumulated earnings (deficit)	(32,897)	—
Noncontrolling interests:		
Redeemable noncontrolling interests	32,954	—

Noncontrolling interest in consolidated subsidiaries	352	341
Vornado equity	—	258,522
Total equity	478,998	258,863
Total liabilities and equity	$1,929,422	$1,741,529

See notes to consolidated and combined financial statements (unaudited).

3

URBAN EDGE PROPERTIES
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME
(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
REVENUE				
Property rentals	$57,380	$57,626	$114,966	$115,050
Tenant expense reimbursements	20,451	18,902	44,754	43,699
Management and development fees	693	134	1,228	265
Other income	191	158	1,550	438
Total revenue	78,715	76,820	162,498	159,452
EXPENSES				
Depreciation and amortization	14,233	13,698	27,965	27,296
Real estate taxes	12,517	12,744	25,341	25,410
Property operating	10,985	11,333	27,508	27,899
General and administrative	6,792	4,560	19,118	9,669
Ground rent	2,565	2,654	5,079	5,210
Transaction costs	427	—	22,286	—
Provision for doubtful accounts	389	358	712	727
Total expenses	47,908	45,347	128,009	96,211
Operating income	30,807	31,473	34,489	63,241
Interest income	51	8	62	17
Interest and debt expense	(13,241)	(13,138)	(28,410)	(26,268)
Income before income taxes	17,617	18,343	6,141	36,990
Income tax expense	(464)	(319)	(1,005)	(1,050)
Net income	17,153	18,024	5,136	35,940
Less net income attributable to noncontrolling interests in:				
Operating partnership	(986)	—	(426)	—
Consolidated subsidiaries	(5)	(6)	(11)	(11)
Net income attributable to common shareholders	$16,162	$18,018	$4,699	$35,929
Earnings per common share - Basic:	$0.16	$0.18	$0.05	$0.36
Earnings per common share - Diluted:	$0.16	$0.18	$0.05	$0.36
Weighted average shares outstanding - Basic	99,250	99,248	99,249	99,248
Weighted average shares outstanding - Diluted	99,274	99,248	99,265	99,248

See notes to consolidated and combined financial statements (unaudited).

URBAN EDGE PROPERTIES
CONSOLIDATED AND COMBINED STATEMENT OF CHANGES IN EQUITY
(Unaudited, in thousands, except share amounts)

	Common Shares					Noncontrolling Interests ("NCI")		
	Shares	Amount	Additional Paid-In Capital[2]	Vornado Equity	Accumulated Earnings (Deficit)	Redeemable NCI[2]	NCI in Consolidated Subsidiaries	Total Equity
Balance, January 1, 2015	—	—	—	$ 258,522	—	—	$ 341	$ 258,863
Net income (loss) attributable to common shareholders[1]	—	—	—	(2,022)	6,721	—	—	4,699
Net income attributable to noncontrolling interests	—	—	—	—	—	426	11	437
Limited interests issued to Vornado at separation	—	—	—	(27,651)	—	27,651	—	—
Contributions from Vornado	—	—	—	248,799	—	—	—	248,799
Issuance of shares in connection with separation	99,247,806	993	476,655	(477,648)	—	—	—	—
Common shares issued:								
Under Omnibus share plan	33,270	—	—	—	—	—	—	—
Under dividend reinvestment plan	4,084	—	92	—	(92)	—	—	—
Dividends on common shares ($0.40 per share)	—	—	—	—	(39,617)	—	—	(39,617)
Share-based compensation expense	—	—	849	—	91	7,329	—	8,269
Distributions to redeemable NCI ($0.40 per unit)	—	—	—	—	—	(2,452)	—	(2,452)
Balance, June 30, 2015	99,285,160	$ 993	$ 477,596	$ —	$ (32,897)	$ 32,954	$ 352	$ 478,998

[1] Net loss earned from January 1, 2015 through January 15, 2015 is attributable to Vornado as it was the sole shareholder prior to January 15, 2015. Refer to Note 1 - Organization.
[2] See Note 15 - Noncontrolling Interests.

See notes to consolidated and combined financial statements (unaudited).

5

URBAN EDGE PROPERTIES
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$5,136	$35,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,965	27,296
Amortization of deferred financing costs	1,420	780
Amortization of below market leases, net	(4,051)	(3,882)
Straight-lining of rental income	(27)	(800)
Share-based compensation expense	8,269	2,229
Non-cash separation costs paid by Vornado	17,403	—
Bad debt expense	712	727
Other non-cash adjustments	746	844
Change in operating assets and liabilities:		
Tenant and other receivables	(4,229)	(4,161)
Prepaid and other assets	2,085	(1,602)
Accounts payable and accrued expenses	1,906	(6,831)
Other liabilities	5,137	939
Net cash provided by operating activities	62,472	51,479
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate additions	(15,257)	(7,614)
Acquisition of real estate	(3,125)	—
(Increase) decrease in cash held in escrow and restricted cash	(826)	1,558
Net cash (used in) investing activities	(19,208)	(6,056)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(38,704)	(15,576)
Contributions from (distributions to) Vornado	231,462	(30,861)
Dividends paid to shareholders	(39,617)	—
Distributions to redeemable noncontrolling interests	(2,452)	—
Debt issuance costs	(3,198)	(150)
Net cash provided by (used in) financing activities	147,491	(46,587)
Net increase (decrease) in cash and cash equivalents	190,755	(1,164)
Cash and cash equivalents at beginning of period	2,600	5,223
Cash and cash equivalents at end of period	$193,355	$4,059
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest (net of amounts capitalized of $857 and $0, respectively)	$27,387	$25,543
Cash payments for income taxes	$1,853	$1,336
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures included in accounts payable and accrued expenses	$2,942	$1,659
Write off of fully depreciated assets	$3,341	$2,072

See notes to consolidated and combined financial statements (unaudited).

URBAN EDGE PROPERTIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION

Urban Edge Properties ("UE" or the "Company") (NYSE: UE) is a Maryland real estate investment trust that owns, manages, acquires, develops, redevelops and operates retail real estate in high barrier-to-entry markets. Urban Edge Properties LP ("UELP" or the "Operating Partnership") is a Delaware limited partnership formed to serve as the Company's majority-owned partnership subsidiary and to own, through affiliates, all of the Company's real estate properties and other assets. Prior to its separation on January 15, 2015, UE was a wholly owned subsidiary of Vornado Realty Trust ("Vornado") (NYSE: VNO). UE and UELP were created to own the majority of Vornado's former shopping center business.

As of June 30, 2015 our portfolio consisted of 79 shopping centers, three malls and a warehouse park totaling 14.8 million square feet, prior to the separation, the portfolio is referred to as "UE Businesses".

Unless the context otherwise requires, references to "we", "us" and "our" refer to Urban Edge Properties after giving effect to the transfer of assets and liabilities from Vornado as well as to the UE Businesses prior to the date of the separation.

Pursuant to a separation and distribution agreement between UE and Vornado (the "Separation Agreement"), the interests in certain properties held by Vornado's operating partnership, Vornado Realty L.P. ("VRLP"), were contributed or otherwise transferred to UE in exchange for 100% of our outstanding common shares. Following that contribution, VRLP distributed 100% of our outstanding common shares to Vornado and the other common limited partners of VRLP, pro rata with respect to their ownership of common limited partnership units in VRLP. Vornado then distributed all of the UE common shares it had received from VRLP to Vornado common shareholders on a pro rata basis. As a result, VRLP common limited partners and Vornado common shareholders all received common shares of UE in the spin-off at a ratio of one common share of UE to every two common shares of Vornado.

Substantially concurrently with such distribution, the interests in certain properties held by VRLP, including interests in entities holding properties, were contributed or otherwise transferred to UELP in exchange for 5.4% of UELP's outstanding units of interest in the Operating Partnership ("OP Units").

As part of the separation, Vornado capitalized UE with $225 million of cash. Vornado also paid $21.9 million of the transaction costs incurred in connection with the separation, which is reflected within Contributions from Vornado on the statement of changes in equity. Of the $21.9 million transaction costs, $17.4 million were contingent on the completion of the separation. The remaining $4.5 million of transaction costs were allocated to net loss attributable to Vornado in the statement of changes in equity.

We plan to elect to be treated as a real estate investment trust ("REIT") in connection with the filing of our federal income tax return for the period ending December 31, 2015, subject to our ability to meet the requirements to be treated as a REIT at the time of election, and we intend to maintain this status in future periods.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION AND COMBINATION

The accompanying consolidated and combined financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for interim reporting. The consolidated balance sheet as of June 30, 2015 reflects the consolidation of properties that are wholly-owned and properties in which we own less than 100% interest in which we have a controlling interest. The accompanying consolidated and combined statements of income for the three and six months ended June 30, 2015 include the consolidated accounts of the Company and the combined accounts of UE Businesses. Accordingly, the results presented for the three and six months ended June 30, 2015 reflect the aggregate operations, changes in cash flows and equity on a carved-out and combined basis for the period from January 1, 2015 through the date of separation and on a consolidated basis subsequent to the date of separation. The accompanying financial statements for the periods prior to the separation date are prepared on a carved-out and combined basis from the consolidated financial statements of Vornado as UE Businesses were under common control of Vornado prior to January 15, 2015. Such carved-out and combined amounts were determined using the historical results of operations and carrying amounts of the assets and liabilities transferred to the UE Businesses. All intercompany transactions have been eliminated in consolidation and combination. Additionally, the financial statements reflect the common shares as of the date of the separation as outstanding for all periods prior to the separation.

In the opinion of management, the accompanying consolidated and combined financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented. These consolidated and combined financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (the "SEC') on March 23, 2015. Certain information and note disclosures in the consolidated and combined financial statements required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations.

For periods presented prior to the date of the separation, our historical combined financial results for UE Businesses reflect charges for certain corporate costs which we believe are reasonable. These charges were based on either actual costs incurred by Vornado or a proportion of costs estimated to be applicable to the UE Businesses based on an analysis of key metrics including total revenues, real estate assets, leasable square feet and operating income. Such costs do not necessarily reflect what the actual costs would have been if the Company were operating as a separate stand-alone public company. These charges are discussed further in Note 5 — Related Party Transactions.

We review operating and financial information for each property on an individual basis and therefore, each property represents an individual operating segment. We aggregate all of our properties into one reportable segment due to their similarities with regard to the nature and economics of the properties, tenants and operations.
For the six months ended June 30, 2014, $3.3 million has been reclassified from general and administrative expenses to property operating expenses to conform to current period presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate — Real estate is carried at cost, net of accumulated depreciation and amortization. Expenditures for ordinary maintenance and repairs are expensed to operations as they are incurred. Significant renovations and improvements that improve or extend the useful lives of assets are capitalized. As real estate is undergoing redevelopment activities, all property operating expenses directly associated with and attributable to the redevelopment, including interest, are capitalized to the extent the capitalized costs of the property do not exceed the estimated fair value of the redeveloped property when completed. If the cost of the redeveloped property, including the net book value of the existing property, exceeds the estimated fair value of redeveloped property, the excess is charged to expense. We capitalize all property operating expenses directly associated with and attributable to the development of a project, including interest expense. The capitalization period begins when redevelopment activities are underway and ends when the project is substantially complete. Depreciation is recognized on a straight-line basis over estimated useful lives which range from 3 to 40 years. Tenant related intangibles and improvements are amortized on a straight-line basis over the lease term, including any bargain renewal options.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above and below-market leases, acquired in-place leases and tenant relationships) and acquired liabilities and we allocate the purchase price based on these assessments. We assess fair value based on estimated cash flow projections utilizing appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions. We record acquired intangible assets (including acquired above-market leases, acquired in-place leases and tenant relationships) and acquired intangible liabilities (including below-market leases) at their estimated fair value separate and apart from goodwill. We amortize identified intangibles that have finite lives over the period they are expected to contribute directly or indirectly to the future cash flows of the property or business acquired.

Our properties, including any related intangible assets, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our consolidated and combined financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses. Based on our impairment analysis performed for the three and six months ended June 30, 2015 and 2014, we have determined there are no impairment losses.

Cash and Cash Equivalents — Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less and are carried at cost, which approximates fair value due to their short-term maturities. The majority of our cash and cash equivalents consists of (i) deposits at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation limit, (ii) United States Treasury Bills and (iii) Certificate of Deposits placed through an Account Registry Service (“CDARS”). To date we have not experienced any losses on our invested cash.

Cash Held in Escrow and Restricted Cash — Cash held in escrow and restricted cash consists of security deposits and cash escrowed under loan agreements for debt service, real estate taxes, property insurance, tenant improvements, leasing commissions and capital expenditures.

Accounts Receivable and Allowance for Doubtful Accounts — Accounts receivable includes unpaid amounts billed to tenants and accrued revenues for future billings to tenants for property expenses. We periodically evaluate the collectibility of amounts due from tenants and maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for receivables arising from the straight-lining of rents. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. Accounts receivable are written-off when they are deemed to be uncollectible and we are no longer actively pursuing collection.

Deferred Leasing Costs — Deferred leasing costs are amortized on a straight-line basis over the lives of the related leases.

Deferred Financing Costs — Deferred financing costs are amortized on a straight-line basis over the terms of the related debt agreements as a component of interest expense, which approximates the effective interest rate method, in accordance with the terms of the agreements to which they relate.

Revenue Recognition — We have the following revenue sources and revenue recognition policies:

- Base Rent - income arising from minimum lease payments from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. In addition, in circumstances where we provide a lease incentive to tenants, we recognize the incentive as a reduction of rental revenue on a straight-line basis over the term of the lease.

- Percentage Rent - income arising from retail tenant leases that is contingent upon tenant sales exceeding defined thresholds. These rents are recognized only after the contingency has been removed (i.e., when tenant sales thresholds have been achieved) and can be estimated by the Company.

- Expense Reimbursements - revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

- Management, Leasing and Other Fees - income arising from contractual agreements with third parties. This revenue is recognized as the related services are performed under the respective agreements.

Noncontrolling Interests — Noncontrolling interests represent the portion of equity that we do not own in those entities that we consolidate. We identify our noncontrolling interests separately within the equity section on the consolidated and combined balance sheets.

Redeemable Noncontrolling Interests — Redeemable noncontrolling interests include OP units and limited partnership units in the Operating Partnership in the form of long-term incentive plan ("LTIP") unit awards held by third parties.

Earnings Per Share — Basic earnings per common share is computed by dividing net income attributable to common shareholders by the weighted average common shares outstanding during the period. Unvested share-based payment awards that entitle holders to receive non-forfeitable dividends, such as our restricted stock awards, are classified as "participating securities." Because the awards are considered participating securities, we are required to apply the two-class method of computing basic and diluted earnings that would otherwise have been available to common shareholders. Under the two-class method, earnings for the period are allocated between common shareholders and other shareholders, based on their respective rights to receive dividends. During periods of net loss, losses are allocated only to the extent the participating securities are required to absorb their share of such losses. Diluted earnings per common share reflects the potential dilution of the assumed exercises of shares including stock options and unvested restricted shares to the extent they are dilutive.

Share-Based Compensation — We grant stock options, LTIP units, OP units and restricted stock awards to our officers, trustees and employees. The term of each award is determined by the compensation committee of our Board of Trustees (the "Compensation Committee"), but in no event can such term be longer than ten years from the date of grant. The vesting schedule of each award is determined by the Compensation Committee, in its sole and absolute discretion, at the date of grant of the award. Dividends are paid on certain shares of non-vested restricted stock, which makes the restricted stock a participating security.

The fair value of each stock option awarded is based on the date of grant using the Black-Scholes option-pricing model. Expected volatilities, dividend yields and employee forfeitures are primarily based on available implied data and peer group companies historical data. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

Compensation expense for restricted stock awards is based on the fair value of our common shares at the date of the grant and is recognized ratably over the vesting period. For grants with a graded vesting schedule or a cliff vesting schedule, we have elected to recognize compensation expense on a straight-line basis. Also included in Share-based compensation expense is the unrecognized compensation expense of awards issued under Vornado's outperformance plan ("OPP") for the Company's employees who were previously Vornado employees. The OPP unrecognized compensation expense is recognized on a straight-line basis over the remaining life of the OPP awards issued. Share-based compensation expense is included in general and administrative expenses on the consolidated and combined statements of income.

Concentration of Credit Risk — A concentration of credit risk arises in our business when a national or regionally-based tenant occupies a substantial amount of space in multiple properties owned by us. In that event, if the tenant suffers a significant downturn in its business, it may become unable to make its contractual rent payments to us, exposing us to potential losses in rental revenue, expense recoveries, and percentage rent. Further, the impact may be magnified if the tenant is renting space in multiple locations. Generally, we do not obtain security from our national or regionally-based tenants in support of their lease obligations to us. We regularly monitor our tenant base to assess potential concentrations of credit risk. None of our tenants accounted for more than 10% of total revenues in the six months ended June 30, 2015. As of June 30, 2015, The Home Depot was our largest tenant with 7 stores at an aggregate of 865,353 square-feet and accounted for approximately $7.1 million for the six months ended June 30, 2015, or 6.4%, of our annual minimum rent.

Recently Issued Accounting Literature

In February 2015, the FASB issued an update ("ASU 2015-02") Amendments to the Consolidation Analysis to ASC Topic 810 Consolidation. Under amendments in this update, all reporting entities are within the scope of Subtopic 810-10 Consolidation - Overall, including limited partnerships and similar legal entities, unless a scope exception applies. The presumption that a general partner controls a limited partnership has been eliminated. Overall the amendments in this update are to simplify the codification and reduce the number of consolidation models and place more emphasis on risk of loss when determining controlling financial interests. ASU 2015-02 is effective for public businesses for interim and annual periods beginning after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated and combined financial statements.

In April 2015, the FASB issued an update ("ASU 2015-03") Simplifying the Presentation of Debt Issuance Costs to ASC Topic 835-30 Interest - Imputation of Interest. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in ASU 2015-03. ASU 2015-03 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015. We expect the adoption of the standard will result in the presentation of debt issuance costs, which are currently included in deferred financing costs in our consolidated and combined balance sheets, as a direct reduction from the carrying amount of the related debt instrument.

4. ACQUISITIONS

During the quarter ended June 30, 2015 the company acquired two properties, a 0.8 acre outparcel adjacent to Bergen Town Center with 7,700 square-feet of retail space for $2.8 million on April 29, 2015 and a 0.4 acre outparcel adjacent to the existing Lawnside shopping center with 2,000 square-feet of retail space for $0.4 million on June 29, 2015. Both acquisitions have been accounted for as business combinations. The purchase prices were allocated to the acquired assets based on their estimated fair values at date of acquisition. The preliminary measurements of fair value are subject to change. The Company expects to finalize the valuations and complete the purchase price allocation within one year from the dates of acquisition.

5. RELATED PARTY TRANSACTIONS

For periods prior to the separation, certain corporate costs borne by Vornado for management and other services including, but not limited to, reporting, legal, tax, information technology and human resources have been allocated to the properties in the combined financial statements using a reasonable allocation methodology as described in Note 2. An allocation of $2.2 million and $4.4 million is included as a component of general and administrative expenses in the combined statements of income for the three and six months ended June 30, 2014, respectively.

Vornado provides transition services to the Company for up to two years from the date of separation pursuant to a transition services agreement between UE and Vornado including human resources, information technology, risk management and tax services. The fees charged to us by Vornado for these transition services approximate the actual cost incurred by Vornado in providing such services. As of June 30, 2015 there were no amounts due to Vornado related to such services. For the three and six months ended June 30, 2015, there were $0.5 million and $1.1 million, respectively, of costs paid to Vornado included in general and administrative expenses related to such services.

Management and Development Fees

In connection with the separation, the Company and Vornado entered into a property management agreement under which the Company provides management, development, leasing and other services to certain properties owned by Vornado and its affiliates, including Interstate Properties (“Interstate”) and Alexander’s, Inc. (NYSE:ALX). Interstate is a general partnership that owns retail properties in which Steven Roth, Chairman of Vornado’s Board and Chief Executive Officer of Vornado, and a member of our Board of Trustees, is the managing general partner. Interstate and its partners beneficially owned an aggregate of approximately 6.6% of the common shares of beneficial interest of Vornado. As of, and for the three and six months ended June 30, 2015, Vornado owned 32.4% of Alexander’s, Inc. During the three and six months ended June 30, 2015, we recognized management and development fee income of $0.7 million and $1.2 million, respectively, and $0.1 million and $0.3 million, for the same periods in 2014. As of June 30, 2015 and December 31, 2014, there were $0.6 million and $0.2 million of fees, respectively, due from Vornado included in Accounts receivable.

6. IDENTIFIED INTANGIBLE ASSETS AND LIABILITIES

Our identified intangible assets (acquired in-place and above and below-market leases) and liabilities (acquired below-market leases), net of accumulated amortization were $33.4 million and $156.5 million as of June 30, 2015, respectively, and $34.8 million and $160.7 million as of December 31, 2014, respectively.

Amortization of acquired below-market leases, net of acquired above-market leases resulted in additional rental income of $2.1 million and $4.1 million for the three and six months ended June 30, 2015, respectively, and $2.0 million and $3.9 million for the same periods in 2014. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases for each of the five succeeding years commencing January 1, 2016 is as follows:

(Amounts in thousands)	
2016	$7,348
2017	7,296
2018	7,079
2019	7,022
2020	7,012

Amortization of acquired in-place leases and customer relationships resulted in additional depreciation and amortization expense of $0.4 million and $0.8 million for the three and six months ended June 30, 2015, respectively, and $0.4 million and $0.8 million for the same periods in 2014. Estimated annual amortization of these identified intangible assets for each of the five succeeding years commencing January 1, 2016 is as follows:

(Amounts in thousands)	
2016	$1,297
2017	1,222
2018	1,115
2019	1,082
2020	1,081

Certain of the shopping centers were acquired subject to ground leases or ground and building leases. Amortization of these acquired below-market leases resulted in additional rent expense of $0.2 million and $0.5 million in the three and six months ended June 30, 2015, respectively, and $0.2 million and $0.5 million for the same periods in 2014. Estimated annual amortization of these below-market leases for each of the five succeeding years commencing January 1, 2016 is as follows:

(Amounts in thousands)	
2016	$972
2017	972
2018	972
2019	972
2020	972

7. MORTGAGES PAYABLE

The following is a summary of mortgages payable as of June 30, 2015 and December 31, 2014.

(Amounts in thousands)	Maturity	Interest Rate at June 30, 2015	June 30, 2015	December 31, 2014
Cross collateralized mortgage on 40 properties:				
Fixed Rate	9/10/2020	4.31%	$540,414	$547,231
Variable Rate(1)	9/10/2020	2.36%	60,000	60,000
Total cross collateralized			600,414	607,231
First mortgages secured by:				
Mount Kisco (A&P)(4)	2/11/2015	5.32%	—	12,076
North Bergen (Tonnelle Avenue)	1/9/2018	4.59%	75,000	75,000
Staten Island (Forest Plaza)(3)	7/6/2018	1.47%	—	17,000
Englewood(5)	10/1/2018	6.22%	11,537	11,571
Montehiedra Town Center, Senior Loan(2)(6)	7/6/2021	5.33%	87,607	120,000
Montehiedra Town Center, Junior Loan(2)	7/6/2021	3.00%	30,000	—
Bergen Town Center	4/8/2023	3.56%	300,000	300,000
Las Catalinas	8/6/2024	4.43%	130,000	130,000
Mount Kisco (Target)(7)	11/15/2034	6.40%	15,473	15,657
			$1,250,031	$1,288,535

(1) Subject to a LIBOR floor of 1.00%, bears interest at LIBOR plus 136 bps.

(2) On January 6, 2015, we completed the modification of the $120.0 million, 6.04% mortgage loan secured by Montehiedra Town Center. Refer to “Troubled Debt Restructuring” disclosure below.

(3) The loan secured by Staten Island (Forest Plaza) was repaid on March 10, 2015.

(4) The loan secured by Mount Kisco (A&P) was repaid on February 11, 2015.

(5) On March 30, 2015, we notified the lender that due to tenants vacating, the property’s operating cash flow will be insufficient to pay the debt service; accordingly, at our request, the mortgage loan was transferred to the special servicer. As of June 30, 2015 we remain in discussions with the special servicer to restructure the terms of the loan including the possibility that the lender will take possession of the property.

(6) The carrying value of the senior loan secured by Montehiedra is presented net of unamortized fees. Refer to “Troubled Debt Restructuring” disclosure below.

(7) The mortgage payable balance on the loan secured by Mt. Kisco (Target) includes $1.2 million and $1.2 million of unamortized debt discount as of June 30, 2015 and December 31, 2014, respectively. The effective interest rate including amortization of the debt discount is 7.30%.

The net carrying amount of real estate collateralizing the above indebtedness amounted to approximately $867.6 million as of June 30, 2015. Our mortgage loans contain covenants that limit our ability to incur additional indebtedness on these properties and in certain circumstances, require lender approval of tenant leases and/or yield maintenance upon repayment prior to maturity. As of June 30, 2015, we are in compliance with all debt covenants.

As of June 30, 2015, the principal repayments for the next five years and thereafter are as follows:

(Amounts in thousands)	
Year Ending December 31,	
2016	$16,041
2017	16,845
2018	99,769
2019	17,381
2020	535,175
Thereafter	558,686

On January 15, 2015, we entered into a $500 million Revolving Credit Agreement (the “Agreement”) with certain financial institutions. The Agreement has a four-year term with two six-month extension options. Borrowings under the Agreement currently bear interest at LIBOR plus 1.15% and we are required to pay an annual facility fee of 20 basis points which is expensed as incurred. Both the spread over LIBOR and the facility fee are based on our current leverage ratio and are subject to increase if our leverage ratio increases above predefined thresholds. The Agreement contains customary financial covenants including a maximum leverage ratio of 60% and a minimum fixed charge coverage ratio of 1.5. No amounts have been drawn to date under the Agreement.

Troubled Debt Restructuring

During the year ended December 31, 2013, Montehiedra Town Center (“Montehiedra”), our property in the San Juan area of Puerto Rico, was experiencing financial difficulties which resulted in a substantial decline in its net operating cash flows. As such, we transferred the mortgage loan secured by Montehiedra to the special servicer and discussed restructuring the terms of the mortgage loan. In January 2015 we completed the modification of the $120.0 million, 6.04% mortgage loan secured by Montehiedra. The loan has been extended from July 2016 to July 2021 and separated into two tranches, a senior $90.0 million position with interest at 5.33% to be paid currently and a junior $30.0 million position with interest accruing at 3%. As part of the planned redevelopment of the property, we committed to fund $20.0 million through an intercompany loan for leasing and building capital expenditures of which $8.0 million has been funded as of June 30, 2015. This $20.0 million intercompany loan is senior to the $30.0 million position noted above and accrues interest at 10%. Both the intercompany loan and related interest are eliminated in our consolidated financial statements. We incurred $2.0 million of lender fees in connection with the loan modification which are treated as a reduction of the mortgage payable balance and amortized over the term of the loan in accordance with the provisions under the Troubled Debt Restructuring Topic of the FASB ASC. During the three and six months ended June 30, 2015, amortization of the lender fees included within interest and debt expense totaled $0.1 million and $0.2 million, respectively, for a net $1.8 million unamortized lender fees as of June 30, 2015.

8. INCOME TAXES

We will elect to be taxed as a REIT under sections 856-860 of the Internal Revenue Code of 1986, as amended, commencing with the filing of our tax return for the 2015 fiscal year. Under those sections, a REIT, which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions, will not be taxed on that portion of its taxable income which is distributed to its shareholders. Prior to the separation from Vornado, UE Businesses historically operated under Vornado’s REIT structure. As Vornado operates as a REIT and distributes 100% of taxable income, no provision has been made in the accompanying consolidated and combined financial statements for the periods prior to the separation. We intend to continue to adhere to these requirements and maintain our REIT status in future periods.

Our two Puerto Rico malls are subject to income taxes which are based on estimated taxable income and are included in income tax expense in the consolidated and combined statements of income. We are also subject to certain other taxes, including state and local taxes and franchise taxes which are included in general and administrative expenses in the consolidated and combined statements of income.

Our Puerto Rico properties are subject to a 29% non-resident withholding tax and a 0.5% Puerto Rico gross receipts tax. The Puerto Rico taxes were $0.5 million, $1.0 million, $0.3 million, and $1.1 million for the three and six months ended June 30, 2015 and 2014, respectively.

9. FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurement and Disclosures defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 - observable prices based on inputs not quoted in active markets, but corroborated by market data; and Level 3 - unobservable inputs used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in our assessment of fair value.

Financial Assets and Liabilities Measured at Fair Value on a Recurring or Non-Recurring Basis

There were no financial assets or liabilities measured at fair value on a recurring or non-recurring basis as of June 30, 2015 and December 31, 2014.

Financial Assets and Liabilities not Measured at Fair Value

Financial assets and liabilities that are not measured at fair value on the consolidated and combined balance sheets include cash equivalents and mortgages payable. Cash equivalents are carried at cost, which approximates fair value. The fair value of mortgages payable is calculated by discounting the future contractual cash flows of these instruments using current risk-adjusted rates available to borrowers with similar credit ratings, which are provided by a third-party specialist. The fair value of cash equivalents is classified as Level 1 and the fair value of mortgages payable is classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of June 30, 2015 and December 31, 2014.

	As of June 30, 2015		As of December 31, 2014	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$193,355	$193,355	$2,600	$2,600
Liabilities:				
Mortgages payable	$1,250,031	$1,291,250	$1,288,535	$1,327,000

10. LEASES

As Lessor

We lease space to tenants under operating leases which expire from 2015 to 2072. The leases provide for the payment of fixed base rents payable monthly in advance as well as reimbursements of real estate taxes, insurance and maintenance costs. Retail leases may also provide for the payment by the lessee of additional rents based on a percentage of their sales.

Future base rental revenue under these non-cancelable operating leases excluding extension options is as follows:

(Amounts in thousands)	
Year Ending December 31,	
2016	$215,062

2017	207,523
2018	193,800
2019	174,598
2020	149,721
Thereafter	970,589

These future minimum amounts do not include additional rents based on a percentage of tenants’ sales or reimbursements. For the three and six months ended June 30, 2015, these additional rents were $0.1 million and $0.5 million, respectively, and $0.5 million and $0.9 million for the same periods in 2014.

As Lessee

We are a tenant under long-term ground leases or ground and building leases for certain of our properties. Lease expirations range from 2017 to 2102. Future lease payments under these agreements, excluding extension options, are as follows:

(Amounts in thousands)	
Year Ending December 31,	
2016	$8,847
2017	8,515
2018	7,186
2019	6,863
2020	4,619
Thereafter	39,158

11. COMMITMENTS AND CONTINGENCIES

Insurance

We maintain general liability insurance with limits of $200 million per occurrence and all-risk property and rental value insurance coverage with limits of $500 million per occurrence, with sub-limits for certain perils such as floods and earthquakes on each of our properties. We also maintain coverage for terrorism acts with limits of $500 million per occurrence and in the aggregate (excluding coverage for nuclear, biological, chemical or radiological terrorism events) as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020. Insurance premiums are charged directly to each of the retail properties as well as warehouses. We will be responsible for deductibles and losses in excess of insurance coverage, which could be material.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in the future.

Our mortgage loans are non-recourse and contain customary covenants requiring adequate insurance coverage. Although we believe that we currently have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. If lenders insist on greater coverage than we are able to obtain it could adversely affect our ability to finance our properties and expand our portfolio.