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Urban Edge Properties
Form 10-Q
May 04, 2016

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

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

For the quarterly period ended March 31, 2016
OR

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

For the transition period from _____ to _____

Commission File Number: 001-36523

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

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 ☒ NO ☐

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 ☒ NO ☐

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 <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
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(Do not check if smaller reporting company)

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

As of April 29, 2016, the Registrant had 99,380,395 common shares outstanding.

URBAN EDGE PROPERTIES
QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED MARCH 31, 2016

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
 URBAN EDGE PROPERTIES
 CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(In thousands, except share and per share amounts)

	March 31, 2016	December 31, 2015
ASSETS		
Real estate, at cost:		
Land	\$382,513	\$389,080
Buildings and improvements	1,613,510	1,630,539
Construction in progress	94,506	61,147
Furniture, fixtures and equipment	3,891	3,876
Total	2,094,420	2,084,642
Accumulated depreciation and amortization	(519,775)	(509,112)
Real estate, net	1,574,645	1,575,530
Cash and cash equivalents	162,354	168,983
Cash held in escrow and restricted cash	8,081	9,042
Tenant and other receivables, net of allowance for doubtful accounts of \$2,061 and \$1,926, respectively	9,306	10,364
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of \$181 and \$148, respectively	89,046	88,778
Identified intangible assets, net of accumulated amortization of \$22,781 and \$22,090, respectively	33,262	33,953
Deferred leasing costs, net of accumulated amortization of \$13,503 and \$12,987, respectively	18,479	18,455
Deferred financing costs, net of accumulated amortization of \$887 and \$709, respectively	2,661	2,838
Prepaid expenses and other assets	10,160	10,988
Total assets	\$1,907,994	\$1,918,931
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,230,349	\$1,233,983
Identified intangible liabilities, net of accumulated amortization of \$67,117 and \$65,220, respectively	152,958	154,855
Accounts payable and accrued expenses	39,508	45,331
Other liabilities	13,702	13,308
Total liabilities	1,436,517	1,447,477
Commitments and contingencies		
Shareholders' equity:		
Common shares: \$0.01 par value; 500,000,000 shares authorized and 99,381,500 and 99,290,952 shares issued and outstanding, respectively	994	993
Additional paid-in capital	476,227	475,369
Accumulated deficit	(39,638)	(38,442)
Noncontrolling interests:		
Redeemable noncontrolling interests	33,541	33,177

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Noncontrolling interest in consolidated subsidiaries	353	357
Total equity	471,477	471,454
Total liabilities and equity	\$1,907,994	\$1,918,931
See notes to consolidated and combined financial statements (unaudited).		

URBAN EDGE PROPERTIES
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2016	2015
REVENUE		
Property rentals	\$58,929	\$57,586
Tenant expense reimbursements	22,507	24,303
Management and development fees	455	535
Other income	1,177	1,359
Total revenue	83,068	83,783
EXPENSES		
Depreciation and amortization	13,915	13,732
Real estate taxes	13,249	12,824
Property operating	12,859	16,523
General and administrative	6,720	12,326
Ground rent	2,538	2,514
Transaction costs	50	21,859
Provision for doubtful accounts	351	323
Total expenses	49,682	80,101
Operating income	33,386	3,682
Interest income	167	11
Interest and debt expense	(13,429)	(15,169)
Income (loss) before income taxes	20,124	(11,476)
Income tax expense	(336)	(541)
Net income (loss)	19,788	(12,017)
Less (net income) loss attributable to noncontrolling interests in:		
Operating partnership	(1,154)	560
Consolidated subsidiaries	4	(6)
Net income (loss) attributable to common shareholders	\$18,638	\$(11,463)
Earnings (loss) per common share - Basic:	\$0.19	\$(0.12)
Earnings (loss) per common share - Diluted:	\$0.19	\$(0.12)
Weighted average shares outstanding - Basic	99,265	99,248
Weighted average shares outstanding - Diluted	99,363	99,248

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

URBAN EDGE PROPERTIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)
(In thousands, except share and per share amounts)

	Common Shares			Noncontrolling Interests ("NCI")			Total Equity
	Shares	Amount	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Redeemable NCI	NCI in Consolidated Subsidiaries	
Balance, December 31, 2015	99,290,952	\$ 993	\$475,369	\$ (38,442)	\$33,177	\$ 357	\$471,454
Net income attributable to common shareholders	—	—	—	18,638	—	—	18,638
Net income attributable to noncontrolling interests	—	—	—	—	1,154	(4)	1,150
Common shares issued:							
Under Omnibus share plan	88,722	1	(1)	—	—	—	—
Under dividend reinvestment plan	3,234	—	84	(84)	—	—	—
Share-based awards retained for taxes	(1,408)	—	(33)	—	—	—	(33)
Dividends on common shares (\$0.20 per share)	—	—	—	(19,792)	—	—	(19,792)
Share-based compensation expense	—	—	808	42	447	—	1,297
Distributions to redeemable NCI (\$0.20 per unit)	—	—	—	—	(1,237)	—	(1,237)
Balance, March 31, 2016	99,381,500	\$ 994	\$476,227	\$ (39,638)	\$33,541	\$ 353	\$471,477

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

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

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$19,788	\$(12,017)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,173	14,006
Amortization of deferred financing costs	659	684
Amortization of below market leases, net	(1,875)	(1,986)
Straight-lining of rent	(213)	(83)
Share-based compensation expense	1,297	7,441
Non-cash separation costs paid by Vornado	—	17,403
Provision for doubtful accounts	351	323
Change in operating assets and liabilities:		
Tenant and other receivables	741	(1,384)
Prepaid and other assets	71	(268)
Accounts payable and accrued expenses	(2,852)	3,815
Other liabilities	305	2,647
Net cash provided by operating activities	32,445	30,581
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate additions	(14,843)	(3,702)
Decrease (increase) in cash held in escrow and restricted cash	962	(2,968)
Net cash used in investing activities	(13,881)	(6,670)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(4,131)	(34,754)
Contributions from Vornado	—	231,462
Dividends paid to shareholders	(19,792)	(19,852)
Distributions to redeemable noncontrolling interests	(1,237)	(1,212)
Debt issuance costs	—	(3,198)
Taxes withheld for vested restricted stock	(33)	—
Proceeds from issuance of common stock	—	54
Net cash provided by (used in) financing activities	(25,193)	172,500
Net (decrease) increase in cash and cash equivalents	(6,629)	196,411
Cash and cash equivalents at beginning of period	168,983	2,600
Cash and cash equivalents at end of period	\$162,354	\$199,011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest (includes amounts capitalized of \$518 and \$0, respectively)	\$12,870	\$13,918
Cash payments for income taxes	\$17	\$16
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures included in accounts payable and accrued expenses	\$5,727	\$3,453
Write off of fully depreciated assets	\$279	\$933
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 March 31, 2016 our portfolio consisted of 80 shopping centers, three malls and a warehouse park totaling 14.9 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 VRLP common units and 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 Non-cash separation costs paid by Vornado within the statement of cash flows. 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 Vornado on the separation date.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION AND COMBINATION

The accompanying consolidated and combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions of Form 10-Q. Certain information and footnote disclosures included in our annual financial statements have been condensed or omitted. Accordingly, these consolidated and combined financial statements should be read in conjunction with the consolidated and combined financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

The consolidated balance sheet as of March 31, 2016 reflects the consolidation of wholly-owned subsidiaries and those entities in which we have a controlling financial interest. The consolidated statement of income for the quarter ended March 31, 2016 includes the consolidated accounts of the Company. The results presented for the quarter ended March 31, 2015 reflect the operations and changes in cash flows 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 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.

In the opinion of management, the 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.

Our primary business is the ownership, management, redevelopment, development and operation of retail shopping centers. We do not distinguish our primary business or group our operations on a geographical basis for purposes of measuring performance. We review operating and financial information for each property on an individual basis and therefore, each property represents an individual operating segment. None of our tenants accounted for more than 10% of our revenue or property operating income. 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.

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.

Recently Issued Accounting Literature

In March 2016, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2016-09”) Improvements to Employee Share-Based Payment Accounting. ASU 2016-02 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact this standard will have on our consolidated and combined financial statements.

In February 2016, the FASB issued an update (“ASU 2016-02”) Leases, which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The provisions of ASU 2016-02 are effective for fiscal years beginning after December 15, 2018 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. We are currently evaluating the impact this standard will have on our consolidated and combined financial statements.

In January 2016, the FASB issued an update (“ASU 2016-01”) Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 revises an entity’s accounting related to: (i) the classification and measurement of investments in equity securities; (ii) the presentation of certain fair value changes for financial liabilities measured at fair value; and (iii) amends certain disclosure requirements associated with the fair value of financial instruments, including eliminating the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. ASU 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the impact this standard will have on our consolidated and combined financial statements.

In September 2015, the FASB issued an update (“ASU 2015-16”) Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and sets forth new disclosures requirements related to the adjustments. ASU 2016-15 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company adopted this standard as of January 1, 2016. The adoption of this standard did not have an impact on our consolidated financial position, results of operations or cash flows.

In August 2015, the FASB issued an update (“ASU 2015-15”) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-Of-Credit Arrangements. ASU 2015-15 is derived from SEC paragraphs pursuant to the SEC staff announcement at the June 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The SEC paragraphs state that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings under that line-of-credit arrangement. ASU 2015-15 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 with early adoption permitted. The Company elected to early adopt ASU 2015-15 as of December 31, 2015 and continues to present debt issuance costs associated with our line-of-credit arrangement as an asset. The adoption did not have an impact on our consolidated financial position, results of operations or cash flows.

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 with early adoption permitted. The Company elected to early adopt ASU 2015-03 effective as of December 31, 2015. The effect of ASU 2015-03 was to reclassify the net unamortized balance of debt issuance costs of \$10.0 million as of December 31, 2015 from deferred financing costs to a contra liability deduction of mortgages payable. Mortgages payable as of March 31, 2016 are presented net of \$9.5 million of unamortized debt issuance costs. The adoption of ASU 2015-03 did not impact our results of operations or cash flows.

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. The Company adopted ASU 2015-02 as of March 31, 2016. Under ASU 2015-02 the Company’s Operating Partnership is considered a variable interest entity (“VIE”). The Company is the primary beneficiary of the VIE, the VIE’s assets can be used for purposes other than the settlement of the VIE’s obligations and the Company’s partnership interest is considered a majority voting interest. The Operating Partnership was 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. In addition, the entity used to acquire Pan Bay Center to facilitate a potential Section 1031 like-kind exchange was determined to be a VIE (refer to Note 4 - Acquisitions and Dispositions). The Company consolidates the Operating Partnership and Pan Bay Center as it is the primary beneficiary of these VIEs.

In May 2014, the FASB issued an update (“ASU 2014-09”) Revenue from Contracts with Customers to ASC Topic 606, which supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition. ASU 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued an update (“ASU 2015-09”) Revenue from Contracts with Customers to ASC Topic 606, which defers the effective date of ASU 2014-09 for all entities by one year. ASU 2015-09 is effective beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the impact this standard will have on our consolidated and combined financial statements.

4. ACQUISITIONS AND DISPOSITIONS

In conjunction with the acquisition of Pan Bay Center in December 2015, we entered into a like-kind exchange agreement under Section 1031 of the Internal Revenue Code with a third party intermediary, which, subject to certain conditions, allow us to defer for tax purposes gains on the sale of other like-kind properties identified and sold within 180 days of the acquisition date of Pan Bay Center. Until the earlier of the termination of the exchange agreements or 180 days after the acquisition date, the third party intermediary is the legal owner of the property; however, we control the activities that most significantly impact the property and retain all of the economic benefits and risks associated with it. Therefore, at the date of acquisition, we determined we were the primary beneficiary of the related variable interest entity and consolidated the properties and their operations. The consolidated balance sheets included total

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assets and liabilities of Pan Bay Center of \$29.5 million and \$2.5 million, respectively as of March 31, 2016 and December 31, 2015.

In February 2016, we executed a contract for the sale of land next to our property in Cherry Hill, NJ for \$3.5 million. The sale is expected to be completed in the second quarter of 2017.

In March 2016, we executed a contract for the sale of a shopping center located in Waterbury, CT for \$21.6 million. As of March 31, 2016 the contract was in due diligence, subject to significant contingencies and the property did not meet the criteria to be classified as held for sale. Subsequent to quarter end, due diligence was completed and contingencies were resolved. The sale is expected to be completed in the second quarter of 2016.

5.RELATED PARTY TRANSACTIONS

In connection with the separation, the Company and Vornado entered into a transition services agreement under which Vornado provides transition services to the Company including human resources, information technology, risk management, tax services

and office space. The fees charged to us by Vornado for these transition services approximate the actual cost incurred by Vornado in providing such services. As of March 31, 2016 there were no amounts due to Vornado related to such services. For the quarter ended March 31, 2016 there were \$0.4 million of costs paid to Vornado included in general and administrative expenses, which consisted of \$0.2 million of transition services fees and \$0.2 million of rent expense for two of our office locations. For the quarter ended March 31, 2015, there were \$0.6 million of costs paid to Vornado included in general and administrative expenses, which consisted of \$0.5 million of transition services fees and \$0.1 million of rent expense for two of our office locations.

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 7.1% of the common shares of beneficial interest of Vornado. As of, and for the three months ended March 31, 2016, Vornado owned 32.4% of Alexander's, Inc. We recognized management and development fee income of \$0.5 million for each of the quarters ended March 31, 2016 and 2015. As of March 31, 2016 and December 31, 2015, there were \$0.3 million and \$0.7 million of fees, respectively, due from Vornado included in tenant and other receivables in our consolidated balance sheets.

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 \$33.3 million and \$153.0 million as of March 31, 2016, respectively, and \$34.0 million and \$154.9 million as of December 31, 2015, respectively.

Amortization of acquired below-market leases, net of acquired above-market leases resulted in additional rental income of \$1.9 million and \$2.0 million for the quarters ended March 31, 2016 and 2015, respectively. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases for each of the five succeeding years commencing January 1, 2017 is as follows:

(Amounts in thousands)

2017	\$7,448
2018	7,227
2019	7,204
2020	7,211
2021	7,182

Amortization of acquired in-place leases and customer relationships resulted in additional depreciation and amortization expense of \$0.4 million for each of the quarters ended March 31, 2016 and 2015. Estimated annual amortization of these identified intangible assets for each of the five succeeding years commencing January 1, 2017 is as follows:

(Amounts in thousands)

2017	\$1,523
2018	1,341
2019	1,220
2020	1,177
2021	1,078

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 for each of the quarters ended March 31, 2016 and 2015. Estimated annual amortization of these below-market leases for each of the five succeeding years commencing January 1, 2017 is as follows:

(Amounts in thousands)

2017	\$972
2018	972
2019	972
2020	972
2021	622

7. MORTGAGES PAYABLE

The following is a summary of mortgages payable as of March 31, 2016 and December 31, 2015.

(Amounts in thousands)	Maturity	Interest Rate at March 31, 2016	March 31, 2016	December 31, 2015
Cross collateralized mortgage on 40 properties:				
Fixed Rate	9/10/2020	4.34%	\$529,929	\$533,459
Variable Rate ⁽¹⁾	9/10/2020	2.36%	60,000	60,000
Total cross collateralized			589,929	593,459
First mortgages secured by:				
North Bergen (Tonnelles Avenue)	1/9/2018	4.59%	74,814	75,000
Englewood ⁽³⁾	10/1/2018	6.22%	11,537	11,537
Montehiedra Town Center, Senior Loan ⁽²⁾⁽⁴⁾	7/6/2021	5.33%	88,375	88,676
Montehiedra Town Center, Junior Loan ⁽²⁾	7/6/2021	3.00%	30,000	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) ⁽⁵⁾	11/15/2034	6.40%	15,187	15,285
	Total mortgages payable		1,239,842	1,243,957
	Unamortized debt issuance costs		(9,493)	(9,974)
Total mortgages payable, net unamortized debt issuance costs			\$1,230,349	\$1,233,983

⁽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⁾ 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 March 31, 2016 we are in default and 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.

⁽⁴⁾ Montehiedra was presented net of unamortized fees of \$1.7 million as of December 31, 2015. The net unamortized fees of \$1.7 million were revised to be presented with the unamortized debt issuance costs.

The mortgage payable balance on the loan secured by Mt. Kisco (Target) includes \$1.1 million of unamortized

⁽⁵⁾ debt discount as of March 31, 2016 and December 31, 2015. The effective interest rate including amortization of the debt discount is 7.25% as of March 31, 2016.

The net carrying amount of real estate collateralizing the above indebtedness amounted to approximately \$860.3 million as of March 31, 2016. 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 March 31, 2016, we were in compliance with all debt covenants.

As of March 31, 2016, the principal repayments for the next five years and thereafter are as follows:

(Amounts in thousands)

Year Ending December 31,

2016 ⁽¹⁾	\$12,307
2017	16,784
2018	99,708
2019	17,320
2020	535,113
2021	121,115
Thereafter	437,495

⁽¹⁾ Remainder of 2016.

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 1.5x. No amounts have been drawn to date under the Agreement. Deferred financing fees associated with the Agreement of \$2.7 million and \$2.8 million as of March 31, 2016 and December 31, 2015, respectively, are included in deferred financing fees in the consolidated balance sheets.

Troubled Debt Restructuring

During the year ended December 31, 2014, 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 3.0%. 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 \$10.1 million has been funded as of March 31, 2016. 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 and combined financial statements. We incurred \$2.0 million of debt issuance costs 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.

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 for federal income taxes has been made in the accompanying consolidated and combined financial statements. We intend to continue to adhere to these requirements and maintain our REIT status in future periods. If we fail to qualify as a REIT for any taxable year, we will be subject to federal income taxes at regular corporate rates (including any alternative minimum tax) and may not be able to

qualify as a REIT for the four subsequent taxable years.

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. Both properties are held in a special partnership for Puerto Rico tax reporting (the general partner being a qualified REIT subsidiary “QRS”).

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 tax expense recorded was \$0.3 million and \$0.5 million for the quarters ended March 31, 2016 and 2015, 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 March 31, 2016 and December 31, 2015.

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 and cash equivalents and mortgages payable. Cash and 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 and 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 March 31, 2016 and December 31, 2015.

(Amounts in thousands)	As of March 31, 2016		As of December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$162,354	\$162,354	\$168,983	\$168,983
Liabilities:				
Mortgages payable ⁽¹⁾	\$1,239,842	\$1,280,025	\$1,242,265	\$1,262,483

⁽¹⁾ Excludes unamortized debt issuance costs.

The following interest rates were used by the Company to estimate the fair value of mortgages payable:

	March 31, 2016		December 31, 2015	
	Low	High	Low	High
Mortgages payable	2.1%	2.5%	2.0%	2.3%

10. COMMITMENTS AND CONTINGENCIES

There are various legal actions against us in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

Loan Commitments: In January 2015 we completed the modification of the \$120.0 million, 6.04% mortgage loan secured by Montehiedra. As part of the planned redevelopment of the property, we committed to fund \$20.0 million for leasing and building capital expenditures of which \$10.1 million has been funded as of March 31, 2016.

Master Leases: Our mortgage loans are non-recourse to us. However, in certain cases we have provided master leased tenant space. These master leases terminate either upon the satisfaction of certain circumstances or the repayment of the underlying mortgage loans. As of March 31, 2016, the aggregate amount of these master leases was approximately \$2.8 million.

Redevelopment: As of March 31, 2016, we have approximately \$131.0 million of active development, redevelopment and anchor repositioning projects underway of which \$92.8 million remains to be funded as of March 31, 2016. Based on current plans and estimates we anticipate the remaining amounts will be expended over the next three years.

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 (\$150 million for properties in Puerto Rico) 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 (\$150 million for properties in Puerto Rico) 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.

Environmental Matters

Each of our properties has been subjected to varying degrees of environmental assessment at various times. Based on these assessments and the projected remediation costs, we accrued expenses of \$1.4 million during the quarter ended March 31, 2015 for potential remediation costs for environmental contamination at two properties. While this accrual reflects our best estimates of the potential costs of remediation at these properties, no amounts have currently been expended and there can be no assurance that the actual costs will not exceed this amount. With respect to our other properties, the environmental assessments did not reveal any material environmental contamination. However, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites, or changes in cleanup requirements would not result in significant costs to us.

11. PREPAID EXPENSES AND OTHER ASSETS

The following is a summary of the composition of the prepaid expenses and other assets in the consolidated balance sheets:

(Amounts in thousands)	Balance at	
	March 31, 2016	December 31, 2015
Other assets	\$2,437	\$2,467
Prepaid expenses:		
Real estate taxes	4,137	5,646
Insurance	2,441	1,934
Rent, licenses/fees	1,145	941
Total Prepaid expenses and other assets	\$10,160	\$10,988

12. OTHER LIABILITIES

The following is a summary of the composition of other liabilities in the consolidated balance sheets:

(Amounts in thousands)	Balance at	
	March 31, 2016	December 31, 2015

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Deferred ground rent expense	\$6,126	\$ 6,038
Deferred tax liability, net	3,620	3,607
Deferred tenant revenue	2,577	2,284
Environmental remediation costs	1,379	1,379
Total Other liabilities	\$13,702	\$ 13,308

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13. INTEREST AND DEBT EXPENSE

The following table sets forth the details of interest and debt expense.

	Three Months Ended March 31,	
(Amounts in thousands)	2016	2015
Interest expense	\$12,770	\$14,485
Amortization of deferred financing costs	659	684
Total Interest and debt expense	\$13,429	\$15,169

14. NONCONTROLLING INTEREST

Redeemable Noncontrolling Interests

Redeemable noncontrolling interests include OP units and limited partnership interests in the Operating Partnership in the form of Long Term Incentive Plan ("LTIP") unit awards. In connection with the separation, the Company issued 5.7 million OP units, representing a 5.4% interest in the Operating Partnership to VRLP in exchange for interests in VRLP properties contributed by VRLP. LTIP unit awards were granted to certain executives pursuant to our 2015 Omnibus Share Plan (the "Omnibus Share Plan"). As of March 31, 2016 there were 433,040 LTIP units outstanding. The total of the OP units and LTIP units represent a 5.8% weighted-average interest in the Operating Partnership for the quarter ended March 31, 2016. Holders of outstanding vested LTIP units may, from and after two years from the date of issuance, redeem their LTIP units for the Company's common shares on a one-for-one basis, or, for cash, solely at our election. Holders of outstanding OP units may, at a determinable date, redeem their units for the Company's common shares on a one-for-one basis, or, for cash, solely at our election.

Noncontrolling Interests

The noncontrolling interests relate to the 5% interest held by others in our property in Walnut Creek, CA (Mt. Diablo). The net income attributable to noncontrolling interest is presented separately in our consolidated and combined statements of income.

15. SHARE-BASED COMPENSATION

Share-based compensation expense, which is included in general and administrative ("G&A") expenses in our consolidated and combined statements of income, is summarized as follows:

	Quarter Ended March 31,	
(Amounts in thousands)	2016	2015
Share-based compensation expense components included in G&A:		
Restricted share expense	\$233	\$9
Stock option expense	576	241
LTIP expense	183	7,143
Outperformance Plan ("OPP") expense ⁽¹⁾	305	48
Total Share-based compensation expense	\$1,297	\$7,441

⁽¹⁾ OPP Expense for the quarter ended March 31, 2016 and March 31, 2015 includes \$42,000 and \$48,000, respectively, of unrecognized compensation expense of awards issued under Vornado's OPP for UE employees who were previously Vornado employees. The remaining OPP unrecognized compensation expense was transferred from Vornado to UE as of the separation date and is amortized on a straight-line basis over the remaining life of the OPP awards issued.

16. EARNINGS PER SHARE

We have calculated earnings per share ("EPS") under the two-class method. The two-class method is an earnings allocation methodology whereby EPS for each class of common shares and participating securities is calculated according to dividends declared and participating rights in undistributed earnings. Restricted shares issued pursuant to our share-based compensation program are considered participating securities, and as such have non-forfeitable rights to receive dividends.

The following table sets forth the computation of our basic and diluted earnings per share:

(Amounts in thousands, except per share data)	Quarter Ended March 31,	
	2016	2015
Numerator:		
Net income (loss) attributable to common shareholders	\$18,638	\$(11,463)
Less: Earnings allocated to unvested participating securities	(22)	—
Net income (loss) available for common shareholders	\$18,616	\$(11,463)
Denominator:		
Weighted average common shares outstanding - basic	99,265	99,248
Effect of dilutive securities ⁽¹⁾ :		
Stock options using the treasury stock method	23	—
Restricted stock	75	—
Weighted average common shares outstanding - diluted	99,363	99,248
Earnings per share available to common shareholders:		
Earnings (loss) per common share - Basic	\$0.19	\$(0.12)
Earnings (loss) per common share - Diluted	\$0.19	\$(0.12)

⁽¹⁾ For the three months ended March 31, 2016 and 2015, the effect of the redemption of OP and LTIP units would have an anti-dilutive effect on the calculation of diluted EPS. Accordingly, the impact of such conversion has not been included in the determination of diluted EPS. Additionally there were stock options and unvested restricted stock outstanding that were excluded from the computation of diluted EPS for the three months ended March 31, 2015 as their inclusion would be anti-dilutive.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are not guarantees of future performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Risk Factors" in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2015.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

The following discussion should be read in conjunction with the consolidated and combined financial statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q.

Overview

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 ("UEL" 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. UE and UEL were created to own the majority of Vornado Realty Trust's ("Vornado") (NYSE: VNO) former shopping center business.

As of March 31, 2016, our portfolio consisted of 80 shopping centers, three malls and a warehouse park totaling 14.9 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.

Prior to its separation on January 15, 2015, UE was a wholly owned subsidiary of Vornado. 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 VRLP common units and 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 UEL in exchange for approximately 5.4% of UEL's outstanding common limited partnership interests 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 Non-cash separation costs paid

by Vornado within the statement of cash flows. 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 Vornado on the separation date.

Critical Accounting Policies and Estimates

Our 2015 Annual Report on Form 10-K contains a description of our critical accounting policies, including accounting for real estate, allowance for doubtful accounts and revenue recognition. For the three months ended March 31, 2016, there were no material changes to these policies.

Recent Accounting Pronouncements

See Note 3 to the unaudited consolidated and combined financial statements in Part I, Item I of this Quarterly Report on Form 10-Q for information regarding recent accounting pronouncements that may affect us.

Results of Operations

We derive substantially all of our revenue from rents received from tenants under existing leases on each of our properties. This revenue includes fixed based rents, recoveries of expenses that we have incurred and that we pass through to the individual tenants and percentage rents that are based on specified percentages of tenants' revenue, in each case as provided in the respective leases.

Our primary cash expenses consist of our property operating and capital expenses, general and administrative expenses, and interest and debt expense. Property operating expenses include: real estate taxes, repairs and maintenance, management expenses, insurance, and utilit