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Urban Edge Properties
Form 10-Q
May 03, 2017

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, 2017
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)
Commission File Number: 001-1681169 (Urban Edge Properties LP)

URBAN EDGE PROPERTIES
URBAN EDGE PROPERTIES LP

(Exact name of Registrant as specified in its charter)

Maryland (Urban Edge Properties) 47-6311266
Delaware (Urban Edge Properties LP) 36-4791544
(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

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.

Urban Edge Properties YES NO Urban Edge Properties LP 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).

Urban Edge Properties YES NO Urban Edge Properties LP 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.

Urban Edge Properties:

Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
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Urban Edge Properties LP:

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input checked="" type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 139a) of the Exchange Act.

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Urban Edge Properties Urban Edge Properties LP

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

Urban Edge Properties YES NO Urban Edge Properties LP YES NO

As of April 28, 2017, Urban Edge Properties had 99,826,975 common shares outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2017 of Urban Edge Properties and Urban Edge Properties LP. Unless stated otherwise or the context otherwise requires, references to “UE” and “Urban Edge” mean Urban Edge Properties, a Maryland real estate investment trust (“REIT”), and references to “UERP” and the “Operating Partnership” mean Urban Edge Properties LP, a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively UE, UERP and those entities/subsidiaries consolidated by UE. UERP is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. UE is the sole general partner and also a limited partner of UERP. As the sole general partner of UERP, UE has exclusive control of UERP’s day-to-day management.

As of March 31, 2017, UE owned an approximate 92.4% ownership interest in UERP. The remaining approximate 7.6% interest is owned by limited partners. The other limited partners of UERP are Vornado Realty L.P. (owning approximately 5.3% of the ownership interest of UERP), members of management, our Board of Trustees, and contributors of property interests acquired. Under the limited partnership agreement of UERP, unitholders may present their common units of UERP for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time). Upon presentation of a common unit for redemption, UERP must redeem the unit for cash equal to the then value of a share of UE’s common shares, as defined by the limited partnership agreement. In lieu of cash redemption by UERP, however, UE may elect to acquire any common units so tendered by issuing common shares of UE in exchange for the common units. If UE so elects, its common shares will be exchanged for common units on a one-for-one basis. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. UE generally expects that it will elect to issue its common shares in connection with each such presentation for redemption rather than having UERP pay cash. With each such exchange or redemption, UE’s percentage ownership in UERP will increase. In addition, whenever UE issues common shares other than to acquire common units of UERP, UE must contribute any net proceeds it receives to UERP and UERP must issue to UE an equivalent number of common units of UERP. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

The Company believes that combining the quarterly reports on Form 10-Q of UE and UERP into this single report provides the following benefits:

- enhances investors’ understanding of UE and UERP by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation because a substantial portion of the disclosure applies to both UE and UERP; and
- creates time and cost efficiencies throughout the preparation of one combined report instead of two separate reports.

The Company believes it is important to understand the few differences between UE and UERP in the context of how UE and UERP operate as a consolidated company. The financial results of UERP are consolidated into the financial statements of UE. UE does not have any other significant assets, liabilities or operations, other than its investment in UERP, nor does it have employees of its own. UERP, not UE, generally executes all significant business relationships other than transactions involving the securities of UE. UERP holds substantially all of the assets of UE. UERP conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by UE, which are contributed to the capital of UERP in exchange for units of limited partnership in UERP, as applicable, UERP generates all remaining capital required by the Company’s business. These sources may include working capital, net cash provided by operating activities, borrowings under the revolving credit facility, the issuance of secured and unsecured debt and equity securities and proceeds received from the disposition of certain properties.

Shareholders’ equity, partners’ capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of UE and UERP. The limited partners of UERP are accounted for as partners’ capital in UERP’s financial statements and as noncontrolling interests in UE’s financial statements. The noncontrolling interests in UERP’s financial statements include the interests of unaffiliated partners in consolidated entities. The noncontrolling interests in UE’s financial statements include the same noncontrolling interests at UERP’s level and limited partners of UERP. The differences between shareholders’ equity and partners’ capital result from differences in

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the equity issued at UE and UELP levels.

To help investors better understand the key differences between UE and UELP, certain information for UE and UELP in this report has been separated, as set forth below: Item 1. Financial Statements (unaudited) which includes specific disclosures for UE and UELP, Note 15, Equity and Noncontrolling Interests and Note 16 thereto, Earnings Per Share and Unit.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of UE and UELP in order to establish that the requisite certifications have been made and that UE and UELP are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

URBAN EDGE PROPERTIES AND URBAN EDGE PROPERTIES LP
 QUARTERLY REPORT ON FORM 10-Q
 QUARTER ENDED MARCH 31, 2017

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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, 2017	December 31, 2016
ASSETS		
Real estate, at cost:		
Land	\$436,088	\$384,217
Buildings and improvements	1,719,079	1,650,054
Construction in progress	108,401	99,236
Furniture, fixtures and equipment	5,077	4,993
Total	2,268,645	2,138,500
Accumulated depreciation and amortization	(553,649)	(541,077)
Real estate, net	1,714,996	1,597,423
Cash and cash equivalents	110,974	131,654
Restricted cash	11,812	8,532
Tenant and other receivables, net of allowance for doubtful accounts of \$2,557 and \$2,332, respectively	11,841	9,340
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of \$207 and \$261, respectively	86,176	87,695
Identified intangible assets, net of accumulated amortization of \$23,693 and \$22,361, respectively	73,879	30,875
Deferred leasing costs, net of accumulated amortization of \$14,555 and \$13,909, respectively	19,391	19,241
Deferred financing costs, net of accumulated amortization of \$972 and \$726, respectively	4,011	1,936
Prepaid expenses and other assets	17,271	17,442
Total assets	\$2,050,351	\$1,904,138
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,256,955	\$1,197,513
Identified intangible liabilities, net of accumulated amortization of \$58,657 and \$72,528, respectively	145,748	146,991
Accounts payable and accrued expenses	54,286	48,842
Other liabilities	16,154	14,675
Total liabilities	1,473,143	1,408,021
Commitments and contingencies		
Shareholders' equity:		
Common shares: \$0.01 par value; 500,000,000 shares authorized and 99,826,975 and 99,754,900 shares issued and outstanding, respectively	998	997
Additional paid-in capital	489,190	488,375
Accumulated earnings (deficit)	(419)	(29,066)
Noncontrolling interests:		
Redeemable noncontrolling interests	87,068	35,451

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Noncontrolling interest in consolidated subsidiaries	371	360
Total equity	577,208	496,117
Total liabilities and equity	\$2,050,351	\$1,904,138

See notes to consolidated financial statements (unaudited).

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URBAN EDGE PROPERTIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2017	2016
REVENUE		
Property rentals	\$62,498	\$58,929
Tenant expense reimbursements	23,771	22,507
Income from acquired leasehold interest	39,215	—
Management and development fees	479	455
Other income	101	1,177
Total revenue	126,064	83,068
EXPENSES		
Depreciation and amortization	15,828	13,915
Real estate taxes	13,392	13,249
Property operating	13,368	12,859
General and administrative	8,081	6,720
Real estate impairment loss	3,164	—
Ground rent	2,670	2,538
Transaction costs	51	50
Provision for doubtful accounts	193	351
Total expenses	56,747	49,682
Operating income	69,317	33,386
Interest income	127	167
Interest and debt expense	(13,115)	(13,429)
Loss on extinguishment of debt	(1,274)	—
Income before income taxes	55,055	20,124
Income tax expense	(320)	(336)
Net income	54,735	19,788
Less (net income) loss attributable to noncontrolling interests in:		
Operating partnership	(4,138)	(1,154)
Consolidated subsidiaries	(11)	4
Net income attributable to common shareholders	\$50,586	\$18,638
Earnings per common share - Basic:	\$0.51	\$0.19
Earnings per common share - Diluted:	\$0.50	\$0.19
Weighted average shares outstanding - Basic	99,639	99,265
Weighted average shares outstanding - Diluted	100,093	99,363

See notes to consolidated 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, 2016	99,754,900	\$ 997	\$488,375	\$ (29,066)	\$35,451	\$ 360	\$496,117
Net income attributable to common shareholders	—	—	—	50,586	—	—	50,586
Net income attributable to noncontrolling interests	—	—	—	—	4,138	11	4,149
Limited partnership units issued	—	—	—	—	48,800	—	48,800
Common shares issued	81,491	1	62	(92)	—	—	(29)
Share-based awards withheld for taxes	(9,416)	—	(260)	—	—	—	(260)
Dividends on common shares (\$0.22 per share)	—	—	—	(21,869)	—	—	(21,869)
Share-based compensation expense	—	—	1,013	22	449	—	1,484
Distributions to redeemable NCI (\$0.22 per unit)	—	—	—	—	(1,770)	—	(1,770)
Balance, March 31, 2017	99,826,975	\$ 998	\$489,190	\$ (419)	\$87,068	\$ 371	\$577,208

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$54,735	\$19,788
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,160	14,173
Income from acquired leasehold interest	(39,215)	—
Real estate impairment loss	3,164	—
Loss on extinguishment of debt	1,274	—
Amortization of deferred financing costs	864	659
Amortization of below market leases, net	(2,036)	(1,875)
Straight-lining of rent	144	(213)
Share-based compensation expense	1,484	1,297
Provision for doubtful accounts	193	351
Change in operating assets and liabilities:		
Tenant and other receivables	(2,748)	741
Deferred leasing costs	(669)	—
Prepaid and other assets	(1,336)	71
Accounts payable and accrued expenses	3,786	(2,852)
Other liabilities	1,426	306
Net cash provided by operating activities	37,226	32,446
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate additions	(11,151)	(14,843)
Acquisition of real estate	(36,552)	—
Net cash used in investing activities	(47,703)	(14,843)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(79,428)	(4,131)
Dividends paid to shareholders	(21,869)	(19,792)
Distributions to redeemable noncontrolling interests	(1,770)	(1,237)
Debt issuance costs	(3,567)	—
Taxes withheld for vested restricted shares	(260)	(33)
Proceeds from issuance of common shares	(29)	—
Proceeds from borrowings	100,000	—
Net cash used in financing activities	(6,923)	(25,193)
Net decrease in cash and cash equivalents and restricted cash	(17,400)	(7,590)
Cash and cash equivalents and restricted cash at beginning of period	140,186	178,025
Cash and cash equivalents and restricted cash at end of period	\$122,786	\$170,435

See notes to consolidated financial statements (unaudited).

	Three Months Ended March 31,	
	2017	2016
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest (includes amounts capitalized of \$940 and \$518, respectively)	\$ 13,119	\$ 12,870
Cash payments for income taxes	22	17
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of real estate through issuance of OP units	48,800	—
Acquisition of real estate through assumption of debt	36,492	—
Accrued capital expenditures included in accounts payable and accrued expenses	12,270	5,727
Write-off of fully depreciated assets	—	279
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents at beginning of period	\$ 131,654	\$ 168,983
Restricted cash at beginning of period	8,532	9,042
Cash and cash equivalents and restricted cash at beginning of period	\$ 140,186	\$ 178,025
Cash and cash equivalents at end of period	\$ 110,974	\$ 162,354
Restricted cash at end of period	11,812	8,081
Cash and cash equivalents and restricted cash at end of period	\$ 122,786	\$ 170,435

See notes to consolidated financial statements (unaudited).

URBAN EDGE PROPERTIES LP
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except unit and per unit amounts)

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Accounts payable and accrued expenses	54,286	48,842
Other liabilities	16,154	14,675
Total liabilities	1,473,143	1,408,021
Commitments and contingencies		
Equity:		
Partners' capital:		
General partner: 99,826,975 and 99,754,900 units outstanding, respectively	490,188	489,372
Limited partners: 8,284,166 and 6,378,704 units outstanding, respectively	86,330	37,081
Accumulated earnings (deficit)	319	(30,696)
Total partners' capital	576,837	495,757
Noncontrolling interest in consolidated subsidiaries	371	360
Total equity	577,208	496,117
Total liabilities and equity	\$2,050,351	\$1,904,138

See notes to consolidated financial statements (unaudited).

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URBAN EDGE PROPERTIES LP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except unit and per unit amounts)

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	2017	2016
REVENUE		
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Transaction costs	51	50
Provision for doubtful accounts	193	351
Total expenses	56,747	49,682
Operating income	69,317	