Urban Edge Properties
Form 10-Q
August 02, 2017

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, 2017

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)
Commission File Number: 331-212951-01 (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 x NO o Urban Edge Properties LP 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).

Urban Edge Properties YES x NO o Urban Edge Properties LP 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.

Urban Edge Properties:

Large Accelerated Filer x	Accelerated Filer o	Non-Accelerated Filer o	Smaller Reporting Company o	Emerging Growth Company o

Urban Edge Properties LP:

Large Accelerated Filer o	Accelerated Filer o	Non-Accelerated Filer x	Smaller Reporting Company o	Emerging Growth Company o

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.

Urban Edge Properties o Urban Edge Properties LP o

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 o NO x Urban Edge Properties LP YES o NO x

As of July 28, 2017, Urban Edge Properties had 107,564,687 common shares outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 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 “UELP” and the “Operating Partnership” mean Urban Edge Properties LP, a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively UE, UELP and those entities/subsidiaries consolidated by UE.

UELP 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 UELP. As the sole general partner of UELP, UE has exclusive control of UELP’s day-to-day management.

As of June 30, 2017, UE owned an approximate 89.3% ownership interest in UELP. The remaining approximate 10.7% interest is owned by limited partners. The other limited partners of UELP are Vornado Realty L.P., members of management, our Board of Trustees, and contributors of property interests acquired. Under the limited partnership agreement of UELP, unitholders may present their common units of UELP 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, UELP 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 UELP, 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 UELP pay cash. With each such exchange or redemption, UE’s percentage ownership in UELP will increase. In addition, whenever UE issues common shares other than to acquire common units of UELP, UE must contribute any net proceeds it receives to UELP and UELP must issue to UE an equivalent number of common units of UELP. 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 UELP into this single report provides the following benefits:

- enhances investors’ understanding of UE and UELP 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 UELP; 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 UELP in the context of how UE and UELP operate as a consolidated company. The financial results of UELP are consolidated into the financial statements of UE. UE does not have any other significant assets, liabilities or operations, other than its investment in UELP, nor does it have employees of its own. UELP, not UE, generally executes all significant business relationships other than transactions involving the securities of UE. UELP holds substantially all of the assets of UE. UELP 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 UELP in exchange for units of limited partnership in UELP, as applicable, UELP 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 UELP. The limited partners of UELP are accounted for as partners’ capital in UELP’s financial statements and as noncontrolling interests in UE’s financial statements. The noncontrolling interests in UELP’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 UELP’s level and limited partners of UELP. The differences between shareholders’ equity and partners’ capital result from differences in 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 JUNE 30, 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)

	June 30, 2017	December 31, 2016
ASSETS		
Real estate, at cost:		
Land	$522,098	$384,217
Buildings and improvements	1,992,386	1,650,054
Construction in progress	123,009	99,236
Furniture, fixtures and equipment	5,591	4,993
Total	2,643,084	2,138,500
Accumulated depreciation and amortization	(568,980)	(541,077)
Real estate, net	2,074,104	1,597,423
Cash and cash equivalents	248,407	131,654
Restricted cash	14,422	8,532
Tenant and other receivables, net of allowance for doubtful accounts of $2,947 and $2,332, respectively	13,299	9,340
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of $324 and $261, respectively	85,737	87,695
Identified intangible assets, net of accumulated amortization of $26,140 and $22,361, respectively	94,964	30,875
Deferred leasing costs, net of accumulated amortization of $14,910 and $13,909, respectively	19,771	19,241
Deferred financing costs, net of accumulated amortization of $1,228 and $726, respectively	3,755	1,936
Prepaid expenses and other assets	9,245	17,442
Total assets	$2,563,704	$1,904,138
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	$1,412,397	$1,197,513
Identified intangible liabilities, net of accumulated amortization of $60,937 and $72,528, respectively	187,223	146,991
Accounts payable and accrued expenses	63,388	48,842
Other liabilities	16,627	14,675
Total liabilities	1,679,635	1,408,021
Commitments and contingencies		
Shareholders’ equity:		
Common shares: $0.01 par value; 500,000,000 shares authorized and 107,564,687 and 99,754,900 shares issued and outstanding, respectively	1,075	997
Additional paid-in capital	683,889	488,375
Accumulated deficit	(10,479)	(29,066)
Noncontrolling interests:		
Redeemable noncontrolling interests	209,202	35,451

Noncontrolling interest in consolidated subsidiaries	382	360
Total equity	884,069	496,117
Total liabilities and equity	$2,563,704	$1,904,138

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUE				
Property rentals	$64,708	$58,683	$127,206	$117,612
Tenant expense reimbursements	23,881	19,879	47,652	42,386
Income from acquired leasehold interest	—	—	39,215	—
Management and development fees	351	526	830	981
Other income	561	369	662	1,546
Total revenue	89,501	79,457	215,565	162,525
EXPENSES				
Depreciation and amortization	23,701	13,558	39,529	27,473
Real estate taxes	14,711	12,723	28,103	25,972
Property operating	11,088	9,840	24,456	22,699
General and administrative	7,709	7,535	15,790	14,255
Real estate impairment loss	303	—	3,467	—
Ground rent	2,436	2,483	5,106	5,021
Transaction costs	132	34	183	84
Provision for doubtful accounts	906	494	1,099	845
Total expenses	60,986	46,667	117,733	96,349
Operating income	28,515	32,790	97,832	66,176
Gain on sale of real estate	—	15,618	—	15,618
Interest income	336	177	463	344
Interest and debt expense	(13,627)	(12,820)	(26,742)	(26,249)
Loss on extinguishment of debt	—	—	(1,274)	—
Income before income taxes	15,224	35,765	70,279	55,889
Income tax benefit (expense)	(304)	306	(624)	(30)
Net income	14,920	36,071	69,655	55,859
Less (net income) loss attributable to noncontrolling interests in:				
Operating partnership	(1,326)	(2,201)	(5,464)	(3,355)
Consolidated subsidiaries	(11)	(2)	(22)	2
Net income attributable to common shareholders	$13,583	$33,868	$64,169	$52,506
Earnings per common share - Basic:	$0.13	$0.34	$0.63	$0.53
Earnings per common share - Diluted:	$0.13	$0.34	$0.63	$0.53
Weighted average shares outstanding - Basic	104,063	99,274	101,863	99,270
Weighted average shares outstanding - Diluted	104,260	99,668	111,224	99,592

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”)		
	Shares	Amount	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Redeemable NCI	NCI in Consolidated Subsidiaries	Total Equity
Balance, December 31, 2016	99,754,900	$ 997	$488,375	$ (29,066)	$35,451	$ 360	$496,117
Net income attributable to common shareholders	—	—	—	64,169	—	—	64,169
Net income attributable to noncontrolling interests	—	—	—	—	5,464	22	5,486
Limited partnership units issued	—	—	—	—	171,084	—	171,084
Common shares issued	7,820,295	78	193,624	(186)	—	—	193,516
Share-based awards withheld for taxes	(10,508)	—	(287)	—	—	—	(287)
Dividends on common shares ($0.44 per share)	—	—	—	(45,435)	—	—	(45,435)
Share-based compensation expense	—	—	2,177	39	1,143	—	3,359
Distributions to redeemable NCI ($0.44 per unit)	—	—	—	—	(3,940)	—	(3,940)
Balance, June 30, 2017	107,564,687	$ 1,075	$683,889	$ (10,479)	$209,202	$ 382	$884,069

See notes to consolidated financial statements (unaudited).

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

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$69,655	$55,859
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,440	27,989
Income from acquired leasehold interest	(39,215)	—
Real estate impairment loss	3,467	—
Loss on extinguishment of debt	1,274	—
Amortization of deferred financing costs	1,451	1,382
Amortization of below market leases, net	(4,107)	(3,749)
Straight-lining of rent	520	(225)
Share-based compensation expense	3,359	2,721
Gain on sale of real estate	—	(15,618)
Provision for doubtful accounts	1,099	845
Change in operating assets and liabilities:		
Tenant and other receivables	(4,994)	1,425
Deferred leasing costs	(2,047)	—
Prepaid and other assets	1,596	1,425
Accounts payable and accrued expenses	9,953	(6,790)
Other liabilities	1,847	1,454
Net cash provided by operating activities	83,298	66,718
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate additions	(35,994)	(27,545)
Acquisition of real estate	(211,393)	—
Proceeds from sale of operating properties	4,790	19,938
Net cash used in investing activities	(242,597)	(7,607)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(83,845)	(29,699)
Dividends paid to shareholders	(45,435)	(39,589)
Distributions to redeemable noncontrolling interests	(3,940)	(2,474)
Debt issuance costs	(3,567)	—
Taxes withheld for vested restricted shares	(287)	(33)
Proceeds from issuance of common shares	193,516	326
Proceeds from borrowings	225,500	—
Net cash provided by (used in) financing activities	281,942	(71,469)
Net increase (decrease) in cash and cash equivalents and restricted cash	122,643	(12,358)
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	$262,829	$165,667

See notes to consolidated financial statements (unaudited).

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	Six Months Ended June 30,	
	2017	2016
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest (includes amounts capitalized of $1,946 and $1,631, respectively)	$26,051	$25,773
Cash payments for income taxes	1,237	1,249
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of real estate through issuance of OP units	171,084	—
Acquisition of real estate through assumption of debt	69,659	—
Accrued capital expenditures included in accounts payable and accrued expenses	13,344	10,093
Write-off of fully depreciated assets	910	683
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	$248,407	$156,672
Restricted cash at end of period	14,422	8,995
Cash and cash equivalents and restricted cash at end of period	$262,829	$165,667

See notes to consolidated financial statements (unaudited).

URBAN EDGE PROPERTIES LP
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except unit and per unit amounts)

	June 30, 2017	December 31, 2016
ASSETS		
Real estate, at cost:		
Land	$522,098	$384,217
Buildings and improvements	1,992,386	1,650,054
Construction in progress	123,009	99,236
Furniture, fixtures and equipment	5,591	4,993
Total	2,643,084	2,138,500
Accumulated depreciation and amortization	(568,980)	(541,077)
Real estate, net	2,074,104	1,597,423
Cash and cash equivalents	248,407	131,654
Restricted cash	14,422	8,532
Tenant and other receivables, net of allowance for doubtful accounts of $2,947 and $2,332, respectively	13,299	9,340
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of $324 and $261, respectively	85,737	87,695
Identified intangible assets, net of accumulated amortization of $26,140 and $22,361, respectively	94,964	30,875
Deferred leasing costs, net of accumulated amortization of $14,910 and $13,909, respectively	19,771	19,241
Deferred financing costs, net of accumulated amortization of $1,228 and $726, respectively	3,755	1,936
Prepaid expenses and other assets	9,245	17,442
Total assets	$2,563,704	$1,904,138
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	$1,412,397	$1,197,513
Identified intangible liabilities, net of accumulated amortization of $60,937 and $72,528, respectively	187,223	146,991
Accounts payable and accrued expenses	63,388	48,842
Other liabilities	16,627	14,675
Total liabilities	1,679,635	1,408,021
Commitments and contingencies		
Equity:		
Partners' capital:		
General partner: 107,564,687 and 99,754,900 units outstanding, respectively	684,964	489,372
Limited partners: 12,830,232 and 6,378,704 units outstanding, respectively	209,308	37,081
Accumulated deficit	(10,585)	(30,696)
Total partners' capital	883,687	495,757
Noncontrolling interest in consolidated subsidiaries	382	360
Total equity	884,069	496,117
Total liabilities and equity	$2,563,704	$1,904,138

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUE				
Property rentals	$64,708	$58,683	$127,206	$117,612
Tenant expense reimbursements	23,881	19,879	47,652	42,386
Income from acquired leasehold interest	—	—	39,215	—
Management and development fees	351	526	830	981
Other income	561	369	662	1,546
Total revenue	89,501	79,457	215,565	162,525
EXPENSES				
Depreciation and amortization	23,701	13,558	39,529	27,473
Real estate taxes	14,711	12,723	28,103	25,972
Property operating	11,088	9,840	24,456	22,699
General and administrative	7,709	7,535	15,790	14,255
Real estate impairment loss	303	—	3,467	—
Ground rent	2,436	2,483	5,106	5,021
Transaction costs	132	34	183	84
Provision for doubtful accounts	906	494	1,099	845
Total expenses	60,986	46,667	117,733	96,349
Operating income	28,515	32,790	97,832	66,176
Gain on sale of real estate	—	15,618	—	15,618
Interest income	336	177	463	344
Interest and debt expense	(13,627)	(12,820)	(26,742)	(26,249)
Loss on extinguishment of debt	—	—	(1,274)	—
Income before income taxes	15,224	35,765	70,279	55,889
Income tax benefit (expense)	(304)	306	(624)	(30)
Net income	14,920	36,071	69,655	55,859
Less: (net income) loss attributable to NCI in consolidated subsidiaries	(11)	(2)	(22)	2
Net income attributable to unitholders	$14,909	$36,069	$69,633	$55,861
Earnings per unit - Basic:	$0.13	$0.34	$0.63	$0.53
Earnings per unit - Diluted:	$0.13	$0.34	$0.63	$0.53
Weighted average units outstanding - Basic	113,847	105,372	110,682	105,353
Weighted average units outstanding - Diluted	114,044	106,041	110,870	105,866

See notes to consolidated financial statements (unaudited).

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

	General Partner	Limited Partners[1]	Accumulated Earnings (Deficit)	NCI in Consolidated Subsidiaries	Total Equity
Balance, December 31, 2016	$489,372	$ 37,081	$ (30,696)	$ 360	$496,117
Net income attributable to unitholders	—	—	69,633	—	69,633
Net income attributable to noncontrolling interests	—	—	—	22	22
Common units issued as a result of common shares issued by Urban Edge	193,702	—	(186)	—	193,516
Limited partnership units issued	—	171,084	—	—	171,084
Distributions to Partners ($0.44 per unit)	—	—	(49,375)	—	(49,375)
Share-based compensation expense	2,177	1,143	39	—	3,359
Share-based awards withheld for taxes	(287)	—	—	—	(287)
Balance, June 30, 2017	$684,964	$ 209,308	$ (10,585)	$ 382	$884,069

[1] Limited partners have a 10.7% common limited partnership interest in the Operating Partnership as of June 30, 2017 in the form of units of interest in the Operating Partnership (“OP Units”) and Long-Term Incentive Plan (“LTIP”) units.

See notes to consolidated financial statements (unaudited).

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

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$69,655	$55,859
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,440	27,989
Income from acquired leasehold interest	(39,215)	—
Real estate impairment loss	3,467	—
Loss on extinguishment of debt	1,274	—
Amortization of deferred financing costs	1,451	1,382
Amortization of below market leases, net	(4,107)	(3,749)
Straight-lining of rent	520	(225)
Share-based compensation expense	3,359	2,721
Gain on sale of real estate	—	(15,618)
Provision for doubtful accounts	1,099	845
Change in operating assets and liabilities:		
Tenant and other receivables	(4,994)	1,425
Deferred leasing costs	(2,047)	—
Prepaid and other assets	1,596	1,425
Accounts payable and accrued expenses	9,953	(6,790)
Other liabilities	1,847	1,454
Net cash provided by operating activities	83,298	66,718
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate additions	(35,994)	(27,545)
Acquisition of real estate	(211,393)	—
Proceeds from sale of operating properties	4,790	19,938
Net cash used in investing activities	(242,597)	(7,607)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(83,845)	(29,699)
Distributions to partners	(49,375)	(42,063)
Debt issuance costs	(3,567)	—
Taxes withheld for vested restricted units	(287)	(33)
Proceeds from issuance of units	193,516	326
Proceeds from borrowings	225,500	—
Net cash provided by (used in) financing activities	281,942	(71,469)
Net increase (decrease) in cash and cash equivalents and restricted cash	122,643	(12,358)
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	$262,829	$165,667

See notes to consolidated financial statements (unaudited).

	Six Months Ended June 30,	
	2017	2016
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest (includes amounts capitalized of $1,946 and $1,631, respectively)	$26,051	$25,773
Cash payments for income taxes	1,237	1,249
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of real estate through issuance of OP units	171,084	—
Acquisition of real estate through assumption of debt	69,659	—
Accrued capital expenditures included in accounts payable and accrued expenses	13,344	10,093
Write-off of fully depreciated assets	910	683
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	$248,407	$156,672
Restricted cash at end of period	14,422	8,995
Cash and cash equivalents and restricted cash at end of period	$262,829	$165,667

See notes to consolidated financial statements (unaudited).

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

1. ORGANIZATION

Urban Edge Properties ("UE", "Urban Edge" 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. Unless the context otherwise requires, references to "we", "us" and "our" refer to Urban Edge Properties and UELP and their consolidated entities/subsidiaries.
The Operating Partnership's capital includes general and common limited partnership interests in the operating partnership ("OP Units"). As of June 30, 2017, Urban Edge owned approximately 89.3% of the outstanding common OP Units with the remaining limited OP Units held by Vornado Realty L.P., members of management, our Board of Trustees and contributors of property interests acquired. Urban Edge serves as the sole general partner of the Operating Partnership. The third party unitholders have limited rights over the Operating Partnership such that they do not have characteristics of a controlling financial interest. As such, the Operating Partnership is considered a variable interest entity ("VIE"), and the Company is the primary beneficiary which consolidates it. The Company's only investment is the Operating Partnership. 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.

As of June 30, 2017, our portfolio consisted of 85 shopping centers, four malls and a warehouse park totaling 16.6 million square feet.
2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated 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. In the opinion of management, the consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company and the Operating Partnership and the results of operations and cash flows for the interim periods presented. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017. Accordingly, these consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities Exchange Commission ("SEC").

The consolidated balance sheets as of June 30, 2017 and December 31, 2016 reflect the consolidation of wholly-owned subsidiaries and those entities in which we have a controlling financial interest. The consolidated statements of income for the three and six months ended June 30, 2017 and 2016 include the consolidated accounts of the Company and the Operating Partnership. All intercompany transactions have been eliminated in consolidation.

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, as well as long-term average financial performance.

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 May 2017, the FASB issued an update ("ASU 2017-09") Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification

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accounting will not apply if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. We expect to adopt the standard beginning January 1, 2018. Once adopted, if we encounter a change to the terms or conditions of any of our share-based payment awards we will evaluate the need to apply modification accounting based on the new guidance. The general treatment for modifications of share-based payment awards is to record the incremental value arising from the change as additional compensation cost.
In February 2017, the FASB issued an updated (“ASU 2017-05”) Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, to clarify the scope and accounting for derecognition of nonfinancial assets. ASU 2017-05 eliminated the guidance specific to real estate sales and partial sales. ASU 2017-05 defines “in-substance nonfinancial assets” and includes guidance on partial sales of nonfinancial assets. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. We are evaluating the impact this standard will have on our consolidated financial statements.
In January 2017, the FASB issued an update (“ASU 2017-01”) Clarifying the Definition of a Business, which changes the definition of a business to exclude acquisitions where substantially all of the fair value of the assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets. While there are various differences between the accounting for an asset acquisition and a business combination, the largest impact is that transaction costs are capitalized for asset acquisitions rather than expensed when they are considered business combinations. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2017-01 effective January 1, 2017. The adoption of this standard has resulted in asset acquisition classification for the real estate acquisitions closed in the three and six months ended June 30, 2017, and accordingly, acquisition costs for these acquisitions have been capitalized (refer to Note 4 Acquisitions and Dispositions).
In February 2016, the FASB issued an update (“ASU 2016-02”) Leases, which revises the accounting related to lease 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 expect to adopt the standard beginning January 1, 2019. This standard will impact our consolidated financial statements by the recording of right-of-use assets and lease liabilities on our consolidated balance sheets for operating and finance leases where we are the lessee. In addition, leases where we are the lessor that meet the criteria of a finance lease will be amortized using the effective interest method with corresponding charges to interest expense and amortization expense. Leases where we are the lessor that meet the criteria of an operating lease will continue to be amortized on a straight-line basis. Lastly, internal leasing department overhead previously capitalized will be expensed within general and administrative expenses.

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. During the year ended December 31, 2016, the FASB issued the following updates to ASC Topic 606 to clarify and/or amend the guidance in ASU 2014-09: (i) ASU 2016-08 Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations, (ii) ASU 2016-10 Identifying Performance Obligations and Licensing, which clarifies guidance related to identifying performance obligations and licensing implementation guidance and (iii) ASU 2016-12 Narrow-Scope Improvements and Practical Expedients, which amends certain aspects of ASU 2014-09. 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 have commenced the process of adopting ASU 2014-09 for reporting periods beginning after December 15, 2017 using the modified retrospective approach, including evaluating all sources of revenue we expect will be impacted by the adoption of ASU 2014-09. We expect the impact, if any, to be to the presentation of certain lease and non-lease components of revenue from leases (upon the adoption of ASU 2016-02 Leases) and not the total revenue recognized overtime.

Any other recently issued accounting standards or pronouncements not disclosed above have been excluded as they are not relevant to the Company or the Operating Partnership, or they are not expected to have a material impact on our consolidated financial statements.

4. ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2017, we closed on the following acquisitions:

Date Purchased	Property Name	City	State	Square Feet	Purchase Price[1] (in thousands)
January 4, 2017	Yonkers Gateway Center	Yonkers	NY	— [2]	$ 51,902
January 17, 2017	Shops at Bruckner	Bronx	NY	114,000	32,269
February 2, 2017	Hudson Mall	Jersey City	NJ	383,000	44,273
May 24, 2017	Yonkers Gateway Center	Yonkers	NY	437,000[2]	101,825
May 24, 2017	The Plaza at Cherry Hill	Cherry Hill	NJ	413,000	53,535
May 24, 2017	Manchester Plaza	Manchester	MO	131,000	20,162
May 24, 2017	Millburn Gateway Center	Millburn	NJ	102,000	45,583
May 24, 2017	21 E Broad St / One Lincoln Plaza	Westfield	NJ	22,000	10,158
May 25, 2017	The Plaza at Woodbridge	Woodbridge	NJ	411,000	103,962
				Total	$ 463,669

(1) Includes $11.3 million of transaction costs incurred since January 1, 2017.

(2) On January 4, 2017, we acquired fee and leasehold interests, including the lessor position under an operating lease for the whole property. On May 24, 2017, we purchased the remaining fee and leasehold interests not previously acquired, including the lessee position under the operating lease for the whole property.

On January 4, 2017, we acquired fee and leasehold interests in Yonkers Gateway Center for $51.9 million. Consideration for this purchase consisted of the issuance of $48.8 million in OP units and $2.9 million of cash. The total number of OP units issued was 1.8 million at a value of $27.09 per unit. Transaction costs associated with this acquisition were $0.2 million.

On January 17, 2017, we acquired the leasehold interest in the Shops at Bruckner for $32.3 million, consisting of the assumption of existing debt of $12.6 million and $19.4 million of cash. The property is an 114,000 sf retail center in the Bronx, NY directly across from our 376,000 sf Bruckner Commons shopping center. We own the land under the Shops at Bruckner and had been leasing it to the seller under a ground lease that ran through September 2044. Concurrent with the acquisition, we wrote-off the unamortized intangible liability balance related to the below-market ground lease as well as the existing straight-line receivable balance. As a result, we recognized $39.2 million of income from acquired leasehold interest in the six months ended June 30, 2017. Transaction costs associated with this acquisition were $0.3 million.

On February 2, 2017, we acquired Hudson Mall, a 383,000 sf retail center in Jersey City, NJ adjacent to our existing Hudson Commons shopping center. Consideration for this purchase consisted of the assumption of the existing debt of $23.8 million and $19.9 million of cash. Transaction costs associated with this acquisition were $0.6 million.

On May 24 and 25, 2017, we acquired a portfolio of seven retail assets (the "Portfolio”) comprising 1.5 million sf of gross leasable area, predominantly in the New York City metropolitan area, for $325 million. The Portfolio was privately owned for more than three decades and was 83% leased as of June 30, 2017. Consideration for this purchase consisted of the issuance of $122 million in OP units, the assumption of $33 million of existing mortgage debt, the issuance of $126 million of non-recourse, secured mortgage debt and $44 million of cash. The total number of OP units issued was 4.5 million at a value of $27.02 per unit. Transaction costs associated with this acquisition were $10.2 million.

All acquisitions closed during the six months ended June 30, 2017 were accounted for as asset acquisitions in accordance with ASU 2017-01, adopted January 1, 2017. Accordingly, transaction costs incurred since January 1, 2017 related to these transactions were capitalized as part of the asset's purchase price. The purchase prices for all acquisitions were allocated to the acquired assets and liabilities based on their relative fair values at date of acquisition.

The aggregate purchase price of the above property acquisitions have been allocated as follows:

Property Name	Land	Buildings and improvements	Identified intangible assets	Identified intangible liabilities	Debt premium	Total purchase price
(in thousands)						
Yonkers Gateway Center	$40,699	$ —	$25,858	$(14,655)	$—	$51,902
Shops at Bruckner	—	32,979	12,029	(12,709)	(30)	32,269
Hudson Mall	15,824	37,593	9,930	(17,344)	(1,730)	44,273
Yonkers Gateway Center	22,642	110,635	38,162	(68,694)	(920)	101,825
The Plaza at Cherry Hill	14,602	33,666	7,800	(2,533)	—	53,535
Manchester Plaza	4,409	13,756	3,256	(1,259)	—	20,162
Millburn Gateway Center	15,783	25,387	5,360	(947)	—	45,583
21 E Broad St / One Lincoln Plaza	5,728	4,305	679	(554)	—	10,158
The Plaza at Woodbridge	21,547	75,017	11,596	(4,198)	—	103,962
Total	$141,234	$ 333,338	$114,670	$(122,893)	$(2,680)	$463,669

Dispositions

On June 30, 2017, we completed the sale of our property previously classified as held for sale in Eatontown, NJ, for $4.8 million, net of selling costs. Prior to the sale, the book value of this property exceeded its estimated fair value less costs to sell, and as such, an initial impairment charge of $3.2 million was recognized as of March 31, 2017. Our determination of fair value was based on the executed contract of sale with the third-party buyer. We recognized a $0.3 million impairment charge at closing on June 30, 2017, based on the final net sales price.

On June 9, 2016, we completed the sale of a shopping center located in Waterbury, CT for $21.6 million, resulting in a gain of $15.6 million. The sale completed the reverse Section 1031 tax deferred exchange transaction with the acquisition of Cross Bay Commons.

5. RELATED PARTY TRANSACTIONS

In connection with the separation, the Company and Vornado Realty Trust (“Vornado”) entered into a transition services agreement under which Vornado provided transition services to the Company including human resources, information technology, risk management, tax services and office space and support. The fees charged to us by Vornado for those transition services approximated the actual cost incurred by Vornado in providing such services. On June 28, 2016, the Company executed an amendment to the transition services agreement, extending Vornado’s provision of information technology, risk management services and the portion of the human resources service related to health and benefits through July 31, 2018, unless terminated earlier. Fees for these services remain the same except that they may be adjusted for inflation. As of June 30, 2017 and December 31, 2016, there were no amounts due to Vornado related to such services.

During the three and six months ended June 30, 2017, there were $0.4 million and $0.9 million, respectively, of costs paid to Vornado included in general and administrative expenses, which consisted of $0.2 million and $0.5 million, respectively, of rent expense for two of our office locations and $0.2 million and $0.4 million, respectively, of transition services fees. For the three and six months ended June 30, 2016, there were $0.5 million and $0.9 million, respectively, of costs paid to Vornado included in general and administrative expenses, which consisted of $0.3 million and $0.5 million, respectively, of rent expense for two of our office locations and $0.2 million and $0.4 million of transition services fees, respectively.

Management and Development Fees

In connection with the separation, the Company and Vornado entered into property management agreements 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 December 31, 2016. As of, and for the three and six months ended June 30, 2017, Vornado owned 32.4% of Alexander's, Inc. During the three and six months ended June 30, 2017, we recognized management and development fee income of $0.3 million and $0.8 million, respectively, and $0.5 million and $1.0 million for the same periods in 2016. As of June 30, 2017 and December 31, 2016, there were $0.3 million of fees 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 $95.0 million and $187.2 million as of June 30, 2017, respectively, and $30.9 million and $147.0 million as of December 31, 2016, 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 and for the three and six months ended June 30, 2017, respectively, and $1.9 million and $3.8 million for the same periods in 2016.

Amortization of acquired in-place leases and customer relationships resulted in additional depreciation and amortization expense of $2.1 million and $3.1 million for the three and six months ended June 30, 2017, respectively, and $0.4 million and $0.8 million for the same periods in 2016.

Certain 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 $0.1 million and $0.5 million for the three and six months ended June 30, 2017, respectively, and $0.2 million and $0.5 million for the same periods in 2016.

The following table sets forth the estimated annual amortization expense related to intangible assets and liabilities for the five succeeding years commencing January 1, 2018:

(Amounts in thousands) Year	Below-Market Operating Lease Income	Above-Market Operating Lease Expense	In-Place Leases	Below-Market Ground Leases
2018	$ 12,074	$ 1,574	$11,285	$ 972
2019	11,620	1,294	8,592	972
2020	11,453	1,016	7,325	972
2021	11,251	803	6,013	622
2022	10,802	426	4,224	590

7. MORTGAGES PAYABLE

The following is a summary of mortgages payable as of June 30, 2017 and December 31, 2016.

(Amounts in thousands)	Maturity	Interest Rate at June 30, 2017	June 30, 2017	December 31, 2016
Cross-collateralized mortgage loan:				
Fixed Rate	9/10/2020	4.38%	$511,739	$519,125
Variable Rate(1)	9/10/2020	2.36%	38,756	38,756
Total cross collateralized			550,495	557,881
First mortgages secured by:				
Englewood(3)	10/1/2018	6.22%	11,537	11,537
Montehiedra Town Center, Senior Loan(2)	7/6/2021	5.33%	86,658	87,308
Montehiedra Town Center, Junior Loan(2)	7/6/2021	3.00%	30,000	30,000
Plaza at Cherry Hill(8)(10)	5/24/22	2.82%	28,930	—
Westfield - One Lincoln(8)(10)	5/24/22	2.82%	4,730	—
Plaza at Woodbridge(8)(10)	5/25/22	2.82%	55,340	—
Bergen Town Center	4/8/2023	3.56%	300,000	300,000
Shops at Bruckner(6)	5/1/2023	3.90%	12,443	—
Hudson Mall(7)	12/1/2023	5.07%	25,333	—
Yonkers Gateway Center(9)	4/6/2024	4.16%	33,967	—
Las Catalinas	8/6/2024	4.43%	130,000	130,000
North Bergen (Tonnelle Avenue)(5)	4/1/2027	4.18%	100,000	73,951
Manchester Plaza(10)	6/1/2027	4.32%	12,500	—
Millburn Gateway Center(10)	6/1/2027	3.97%	24,000	—
Mount Kisco (Target)(4)	11/15/2034	6.40%	14,672	14,883
	Total mortgages payable		1,420,605	1,205,560
	Unamortized debt issuance costs		(8,208)	(8,047)
Total mortgages payable, net of unamortized debt issuance costs			$1,412,397	$1,197,513

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

(2) As part of the planned redevelopment of Montehiedra Town Center, we committed to fund $20.0 million for leasing and capital expenditures of which $19.3 million has been funded as of June 30, 2017.

(3) On March 30, 2015, we notified the lender that due to tenants vacating, the property’s operating cash flow would be insufficient to pay its debt service. As of June 30, 2017, we were in default and the property was transferred to receivership. Urban Edge no longer manages the property but will remain its title owner until the receiver disposes of the property. We have determined this property is held in a VIE for which we are the primary beneficiary. Accordingly, as of June 30, 2017, we consolidated Englewood and its operations. The consolidated balance sheet included total assets and liabilities of $12.4 million and $14.5 million, respectively.

(4) The mortgage payable balance on the loan secured by Mount Kisco (Target) includes $1.1 million of unamortized debt discount as of June 30, 2017 and December 31, 2016. The effective interest rate including amortization of the debt discount is 7.34% as of June 30, 2017.

(5) On March 29, 2017, we refinanced the $74 million, 4.59% mortgage loan secured by our Tonnelle Commons property in North Bergen, NJ, increasing the principal balance to $100 million at 4.18% with a 10-year fixed rate mortgage. As a result, we recognized a loss on extinguishment of debt of $1.3 million during the six months ended June 30, 2017 comprised of a $1.2 million prepayment penalty and write-off of $0.1 million of unamortized deferred financing fees on the original loan.

(6)

(7) On January 17, 2017, we assumed the existing mortgage secured by the Shops at Bruckner in connection with our acquisition of the property's leasehold interest.
On February 2, 2017, we assumed the existing mortgage secured by Hudson Mall in connection with our acquisition of the property. The mortgage payable balance on the loan secured by Hudson Mall includes $1.6 million of unamortized debt premium as of June 30, 2017. The effective interest rate including amortization of the debt premium is 3.11% as of June 30, 2017.

(8) Bears interest at one month LIBOR plus 160 bps.

(9) Reflects the $33 million existing mortgage assumed in connection with the acquisition of Yonkers Gateway Center on May 24, 2017. The mortgage payable balance on the loan secured by Yonkers Gateway Center includes $0.9 million of unamortized debt premium as of June 30, 2017. The effective interest rate including amortization of the debt premium is 0.8% as of June 30, 2017.

(10) Reflects a portion of the $126 million non-recourse, secured debt issued to fund the Portfolio acquisition closed on May 24 and 25, 2017. Refer to Note 4 Acquisitions and Dispositions for further information.

The net carrying amount of real estate collateralizing the above indebtedness amounted to approximately $1.3 billion as of June 30, 2017. 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, 2017, we were in compliance with all debt covenants.

As of June 30, 2017, the principal repayments for the next five years and thereafter are as follows:

(Amounts in thousands)	
Year Ending December 31,	
2017[1]	$ 9,647
2018	29,761
2019	20,397
2020	517,327
2021	123,003
2022	96,748
Thereafter	623,722

[1] Remainder of 2017.

On January 15, 2015, we entered into a $500 million Revolving Credit Agreement (the “Agreement”) with certain financial institutions. On March 7, 2017, we amended and extended the Agreement. The amendment increased the credit facility size by $100 million to $600 million and extended the maturity date to March 7, 2021 with two six-month extension options. Borrowings under the Agreement are subject to interest at LIBOR plus 1.15% and we are required to pay an annual facility fee of 20 basis points which is expensed within interest and debt expense 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. Financing fees associated with the Agreement of $3.8 million and $1.9 million as of June 30, 2017 and December 31, 2016, respectively, are included in deferred financing fees in the consolidated balance sheets.

8. INCOME TAXES

The Company has elected to qualify 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, that 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. As a REIT, we generally will not be subject to federal income taxes, provided that we distribute 100% of taxable income. It is our intention to adhere to the organizational and operational requirements to maintain our REIT status. 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.

The REIT and the other minority members are partners in the Operating Partnership. As such, the partners are required to report their share of taxable income on their tax returns. 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 statements of income.

Our two Puerto Rico malls are subject to a 29% non-resident withholding tax which is included in income tax expense in the consolidated statements of income. The Puerto Rico tax expense recorded was $0.6 million and $30.0 thousand for the six months ended June 30, 2017 and 2016, respectively, and $0.3 million for the quarter ended June 30, 2017. There was a $0.3 million income tax benefit recorded for the quarter ended June 30, 2016. Both properties are held in a special partnership for Puerto Rico tax reporting (the general partner being a qualified REIT subsidiary or “QRS”).

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 Basis

There were no financial assets or liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016.

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

There were no financial assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2017 and December 31, 2016.

Financial Assets and Liabilities not Measured at Fair Value

Financial assets and liabilities that are not measured at fair value on the consolidated 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 June 30, 2017 and December 31, 2016.

	As of June 30, 2017		As of December 31, 2016	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$248,407	$248,407	$131,654	$131,654
Liabilities:				
Mortgages payable[1]	$1,420,605	$1,443,347	$1,205,560	$1,216,989

[1] Carrying amounts exclude unamortized debt issuance costs of $8.2 million and $8.0 million as of June 30, 2017 and December 31, 2016, respectively.

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

	June 30, 2017		December 31, 2016	
	Low	High	Low	High
Mortgages payable	1.8%	2.2%	2.0%	2.3%

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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 Town Center. As part of the planned redevelopment of the property, we committed to fund $20.0 million for leasing and building capital expenditures of which $19.3 million has been funded as of June 30, 2017.

Redevelopment: As of June 30, 2017, we had approximately $173.7 million of active development, redevelopment and anchor repositioning projects underway of which $94.0 million remains to be funded. Based on current plans and estimates we anticipate the remaining amounts will be expended over the next two years.

Insurance

We maintain general liability insurance with limits of $200 million for properties in the U.S. and Puerto Rico and all-risk property and rental value insurance coverage with limits of $500 million for properties in the U.S. and $139 million for properties in Puerto Rico, with sub-limits for certain perils such as floods and earthquakes on each of our properties. Our insurance includes coverage for terrorism acts but excludes coverage for nuclear, biological, chemical or radiological terrorism events as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020. In addition, we maintain coverage for cybersecurity with limits of $5 million in the aggregate providing first and third party coverage including network interruption, event management, cyber extortion and claims for media content, security and privacy liability. Insurance premiums are charged directly to each of the retail properties and 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 have accrued costs of $1.4 million on our consolidated balance sheets 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, $0.1 million has 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:

	Balance at	
(Amounts in thousands)	June 30, 2017	December 31, 2016

Other assets	$2,301	$ 2,161
Deposits for acquisitions	—	6,600
Prepaid expenses:		
Real estate taxes	3,822	5,198
Insurance	1,622	2,545
Rent, licenses/fees	1,500	938
Total Prepaid expenses and other assets	$9,245	$ 17,442

12. OTHER LIABILITIES

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

	Balance at	
(Amounts in thousands)	June 30, 2017	December 31, 2016
Deferred ground rent expense	$6,392	$ 6,284
Deferred tax liability, net	3,859	3,802
Deferred tenant revenue	4,743	3,280
Environmental remediation costs	1,232	1,309
Other liabilities	401	—
Total Other liabilities	$16,627	$ 14,675

13. INTEREST AND DEBT EXPENSE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	2017	2016	2017	2016
Interest expense	$13,040	$12,097	$25,291	$24,867
Amortization of deferred financing costs	587	723	1,451	1,382
Total Interest and debt expense	$13,627	$12,820	$26,742	$26,249

14. EQUITY AND NONCONTROLLING INTEREST

At-The-Market Program

In 2016, the Company established an at-the-market (“ATM”) equity program, pursuant to which the Company may offer and sell from time to time its common shares, par value $0.01 per share, with an aggregate gross sales price of up to $250.0 million through a consortium of broker dealers acting as sales agents. As of June 30, 2017, $241.3 million of common shares remained available for issuance under this ATM equity program. During the six months ended June 30, 2017 and 2016, there were no common shares issued under this ATM equity program. Actual future sales will depend on a variety of factors including, but not limited to, market conditions, the trading price of our common shares and our capital needs. We have no obligation to sell the remaining shares available under the active ATM equity program.

Underwritten Public Offering

On May 10, 2017, the Company issued 7.7 million common shares of beneficial interest in an underwritten public offering pursuant to the Company’s effective shelf registration statement previously filed on Form S-3 with the SEC on August 5, 2016. This offering generated cash proceeds of $193.5 million, net of $1.3 million of issuance costs.

Units of the Operating Partnership

The Operating Partnership issued 1.8 million OP units in connection with the acquisition of Yonkers Gateway Center on January 4, 2017, at a value of $27.09 per unit. On May 24 and 25, 2017, the Operating Partnership issued 2.6 million OP units and 1.9 million OP units, respectively, in connection with the Portfolio acquisition at a value of $27.02 per unit (refer to Note 4 Acquisitions and Dispositions).

Dividends and Distributions

During the three months ended June 30, 2017 and 2016, the Company declared dividends on our common shares and OP unit distributions of $0.22 and $0.20 per share/unit, respectively. During the six months ended June 30, 2017 and 2016, the Company declared common stock dividends and OP unit distributions of $0.44 and $0.40 per share/unit, respectively.

Redeemable Noncontrolling Interests

Redeemable noncontrolling interests reflected on the consolidated balance sheets of the Company are comprised of OP units and limited partnership interests in the Operating Partnership in the form of 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"). OP units were issued to contributors in exchange for their property interests in connection with the Company's acquisition of Yonkers Gateway Center and the Portfolio acquisition. The total of the OP units and LTIP units represent an 8.9% and 8.2% weighted-average interest in the Operating Partnership for the three and six months ended June 30, 2017, respectively. Holders of outstanding vested LTIP units may, from and after two years from the date of issuance, redeem their LTIP units for cash, or for the Company's common shares on a one-for-one basis, solely at our election. Holders of outstanding OP units may, at a determinable date, redeem their units for cash or the Company's common shares on a one-for-one basis, solely at our election.

Noncontrolling Interest

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

15. SHARE-BASED COMPENSATION

2017 Outperformance Plan

On February 24, 2017, the Compensation Committee of the Board of Trustees of the Company approved the Company's 2017 Outperformance Plan ("2017 OPP"), a multi-year performance-based equity compensation program. Under the 2017 OPP, participants, including our Chairman and Chief Executive Officer, have the opportunity to earn awards in the form of LTIP units if, and only if, we outperform a predetermined total shareholder return ("TSR") and/or outperform the market with respect to a relative TSR in any year during the requisite performance periods as described below. The aggregate notional amount of the 2017 OPP grant is $12.0 million.

Awards under the 2017 OPP may be earned if we (i) achieve a TSR level greater than 7% per annum, or 21% over the three-year performance measurement period, and/or (ii) achieve a TSR equal to or above, that of the 50th percentile of a retail REIT peer group comprised of 14 of our peer companies, over a three-year performance measurement period. Distributions on awards accrue during the measurement period, except that 10% of such distributions are paid in cash. If the designated performance objectives are achieved, LTIP units are also subject to time-based vesting requirements. Awards earned under the 2017 OPP vest 50% in year three, 25% in year four and 25% in year five.

The fair value of the 2017 OPP on the date of grant was $4.1 million using a Monte Carlo simulation to estimate the fair value based on the probability of satisfying the market conditions and the projected share price at the time of payment, discounted to the valuated date over a three-year performance period. Assumptions include historic volatility (19.7%), risk-free interest rates (1.5%), and historic daily return as compared to our Peer Group. Such amount is being amortized into expense over a five-year period from the date of grant, using a graded vesting attribution model.

Share-Based Compensation Expense

Share-based compensation expense, which is included in general and administrative expenses in our consolidated statements of income, is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	2017	2016	2017	2016
Share-based compensation expense components:				
Restricted share expense	$518	$383	$908	$616
Stock option expense	646	653	1,269	1,229
LTIP expense	147	100	263	283
Outperformance Plan ("OPP") expense	564	288	919	593
Total Share-based compensation expense	$1,875	$1,424	$3,359	$2,721

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16. EARNINGS PER SHARE AND UNIT

Urban Edge 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 Urban Edge 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands, except per share amounts)	2017	2016	2017	2016
Numerator:				
Net income attributable to common shareholders	$13,583	$33,868	$64,169	$52,506
Less: Earnings allocated to unvested participating securities	(39)	(43)	(107)	(61)
Net income available for common shareholders - basic	$13,544	$33,825	$64,062	$52,445
Impact of assumed conversions:				
OP and LTIP units	—	—	5,463	—
Net income available for common shareholders - dilutive	$13,544	$33,825	$69,525	$52,445
Denominator:				
Weighted average common shares outstanding - basic	104,063	99,274	101,863	99,270
Effect of dilutive securities[1]:				
Stock options using the treasury stock method	21	272	30	157
Restricted share awards	176	122	158	98
Assumed conversion of OP and LTIP units	—	—	9,173	67
Weighted average common shares outstanding - diluted	104,260	99,668	111,224	99,592
Earnings per share available to common shareholders:				
Earnings per common share - Basic	$0.13	$0.34	$0.63	$0.53
Earnings per common share - Diluted	$0.13	$0.34	$0.63	$0.53

[1] For the three and six months ended June 30, 2016 and the three months ended June 30, 2017 the effect of the redemption of OP and LTIP units for Urban Edge common shares would have an anti-dilutive effect on the calculation of diluted EPS. Accordingly, the impact of such redemption has not been included in the determination of diluted EPS for these periods.

Operating Partnership Earnings per Unit

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands, except per unit amounts)	2017	2016	2017	2016
Numerator:				
Net income attributable to unitholders	$14,909	$36,069	$69,633	$55,861
Less: net income attributable to participating securities	(39)	(45)	(104)	(64)
Net income available for unitholders	$14,870	$36,024	$69,529	$55,797
Denominator:				
Weighted average units outstanding - basic	113,847	105,372	110,682	105,353
Effect of dilutive securities issued by Urban Edge	197	394	188	255
Unvested LTIP units	—	275	—	258
Weighted average units outstanding - diluted	114,044	106,041	110,870	105,866
Earnings per unit available to unitholders:				
Earnings per unit - Basic	$0.13	$0.34	$0.63	$0.53
Earnings per unit - Diluted	$0.13	$0.34	$0.63	$0.53

17. SUBSEQUENT EVENTS

Pursuant to the Subsequent Events Topic of the FASB ASC, we have evaluated subsequent events and transactions that occurred after our June 30, 2017 consolidated balance sheet date for potential recognition or disclosure in our consolidated financial statements. Based on this evaluation, the Company has determined there are no subsequent events required to be disclosed.

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,” “inte “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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. 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 financial statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q.

Overview

Urban Edge Properties (“UE”, “Urban Edge” 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. Unless the context otherwise requires, references to “we”, “us” and “our” refer to Urban Edge Properties and UELP and their consolidated entities/subsidiaries.
The Operating Partnership’s capital includes general and common limited partnership interests in the operating partnership (“OP Units”). As of June 30, 2017, Urban Edge owned approximately 89.3% of the outstanding common OP Units with the remaining limited OP Units held by Vornado Realty L.P., members of management, our Board of Trustees and contributors of property interests acquired. Urban Edge serves as the sole general partner of the Operating Partnership. The third party unitholders have limited rights over the Operating Partnership such that they do not have characteristics of a controlling financial interest. As such, the Operating Partnership is considered a variable interest entity (“VIE”), and the Company is the primary beneficiary which consolidates it. The Company’s only investment is the Operating Partnership. 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.

As of June 30, 2017, our portfolio consisted of 85 shopping centers, four malls and a warehouse park totaling 16.6 million square feet.
Critical Accounting Policies and Estimates

The Company’s 2016 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 six months ended June 30, 2017, there were no material changes to these policies, other than the adoption of the Accounting Standards Update (“ASU”) 2017-01 described in Note 3 to the unaudited consolidated financial statements in Part 1, Item 1 of this

Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

Refer to Note 3 to the unaudited consolidated 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 utilities; general and administrative expenses include payroll, office expenses, professional fees and other administrative expenses; and interest expense is primarily on our mortgage debt and amortization of deferred financing costs on our revolving credit facility. In addition, we incur substantial non-cash charges for depreciation and amortization on our properties. We also capitalize certain expenses, such as taxes, interest, and salaries related to properties under development or redevelopment until the property is ready for its intended use.

Our consolidated results of operations often are not comparable from period to period due to the impact of property acquisitions, dispositions, developments and redevelopments. The results of operations of any acquired properties are included in our financial statements as of the date of acquisition.

The following provides an overview of our key financial metrics based on our consolidated results of operations (refer to cash Net Operating Income ("NOI"), same-property cash NOI and Funds From Operations applicable to diluted common shareholders ("FFO") described later in this section):

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	2017	2016	2017	2016
Net income	$14,920	$36,071	$69,655	$55,859
FFO applicable to diluted common shareholders[1]	38,664	33,846	112,131	67,393
Cash NOI[2]	58,908	52,463	114,548	104,723
Same-property cash NOI[2]	48,627	46,305	96,721	91,841

[1] Refer to page 31 for a reconciliation to the nearest generally accepted accounting principles ("GAAP") measure.
[2] Refer to page 30 for a reconciliation to the nearest GAAP measure.

Significant Development/Redevelopment Activity

The Company had active development, redevelopment or anchor repositioning projects at 13 properties with total estimated costs of $173.7 million, of which $79.7 million (or 46%) has been incurred as of June 30, 2017. As of June 30, 2017, the Company had completed projects at four properties for a total investment of $29.7 million.

Acquisition/Disposition Activity

On January 4, 2017, we acquired fee and leasehold interests in Yonkers Gateway Center for $51.9 million. Consideration for this purchase consisted of the issuance of $48.8 million in OP units and $2.9 million of cash. The total number of OP units issued was 1.8 million at a value of $27.09 per unit. Transaction costs associated with this acquisition were $0.2 million.

On January 17, 2017, we acquired the leasehold interest in the Shops at Bruckner for $32.3 million, consisting of the assumption of the existing debt of $12.6 million and $19.4 million of cash. The property is an 114,000 sf retail center in the Bronx, NY directly across from our 376,000 sf Bruckner Commons shopping center. We own the land under the Shops at Bruckner and had been leasing it to the seller under a ground lease that ran through September 2044. Concurrent with the acquisition, we wrote-off the unamortized intangible liability balance related to the below-market ground lease as well as the existing straight-line receivable balance. As a result, we recognized $39.2 million of income from acquired leasehold interest in the six months ended June 30, 2017. Transaction costs associated with this acquisition were $0.3 million.

On February 2, 2017, we acquired Hudson Mall, a 383,000 sf retail center in Jersey City, NJ adjacent to our existing Hudson Commons shopping center. Consideration for this purchase consisted of the assumption of the existing debt of $23.8 million and $19.9 million of cash. Transaction costs associated with this acquisition were $0.6 million.

On May 24 and 25, 2017, we acquired a portfolio of seven retail assets (the "Portfolio”) comprising 1.5 million sf of gross leasable area, predominantly in the New York City metropolitan area, for $325 million. The Portfolio was privately owned for more than three decades and was 83% leased as of June 30, 2017. Consideration for this purchase consisted of the issuance of $122 million in OP units, the assumption of $33 million of existing mortgage debt, the issuance of $126 million of non-recourse, secured mortgage debt and $44 million of cash. The total number of OP units issued was 4.5 million at a value of $27.02 per unit. Transaction costs associated with this acquisition were $10.2 million.

On June 30, 2017, we completed the sale of our property previously classified as held for sale in Eatontown, NJ, for $4.8 million, net of selling costs. Prior to the sale, the book value of this property exceeded its estimated fair value less costs to sell, and as such, an initial impairment charge of $3.2 million was recognized as of March 31, 2017. Our determination of fair value was based on the executed contract of sale with the third-party buyer. We recognized a $0.3 million impairment charge at closing on June 30, 2017, based on the final net sales price.

On June 9, 2016, we completed the sale of a shopping center located in Waterbury, CT for $21.6 million, resulting in a gain on sale of $15.6 million. During the three and six months ended June 30, 2016, there were no acquisitions.

Significant Debt and Equity Activity

Debt Activity

During May of 2017, $126 million of non-recourse, secured debt was issued in connection with the funding of the Portfolio acquisition. The mortgages are scheduled to mature beginning in 2022 through 2027. In addition, we assumed the $33 million existing mortgage in connection with the acquisition of Yonkers Gateway Center on May 24, 2017. The mortgage payable balance on the loan secured by Yonkers Gateway Center includes $0.9 million of unamortized debt premium as of June 30, 2017.

On March 29, 2017, we refinanced the $74 million, 4.59% mortgage loan secured by our Tonnelle Commons property in North Bergen, NJ, increasing the principal balance to $100 million at 4.18% with a 10-year fixed rate mortgage. As a result, we recognized a loss on extinguishment of debt of $1.3 million during the six months ended June 30, 2017 comprised of a $1.2 million prepayment penalty and write-off of $0.1 million of unamortized deferred financing fees on the original loan.

On January 15, 2015, we entered into a $500 million Revolving Credit Agreement (the “Agreement”) with certain financial institutions. On March 7, 2017, we amended and extended the Agreement. The amendment increased the credit facility size by $100 million to $600 million and extended the maturity date to March 7, 2021 with two six-month extension options. Borrowings under the Agreement are subject to interest at LIBOR plus 1.15% and we are required to pay an annual facility fee of 20 basis points which is expensed within interest and debt expense 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.

During June 2016, in connection with the sale of a shopping center located in Waterbury, CT, we prepaid $21.2 million of our cross collateralized mortgage loan to release the property from the mortgage and maintain compliance with covenant requirements.

On March 30, 2015, we notified the lender that due to tenants vacating the Englewood shopping center, the property’s operating cash flow would be insufficient to pay its debt service. As of June 30, 2017, we were in default and the property was transferred to receivership. Urban Edge no longer manages the property but will remain its title owner until the receiver disposes of the property.

Equity Activity

On January 7, 2015, our board and initial shareholder approved the Urban Edge Properties 2015 Omnibus Share Plan, under which awards may be granted up to a maximum of 15,000,000 of our common shares or share equivalents. Pursuant to the Omnibus Share Plan, stock options, LTIP units, Operating Partnership units and restricted shares are available for grant. We have a Dividend Reinvestment Plan (the “DRIP”), whereby shareholders may use their dividends to purchase shares.

On February 24, 2017, the Compensation Committee of the Board of Trustees of the Company approved the Company’s 2017 Outperformance Plan (“2017 OPP”), a multi-year performance-based equity compensation program. The purpose of the 2017 Outperformance Plan is to further align the interests of the Company’s shareholders with that of management by encouraging the Company’s senior officers to create shareholder value in a “pay for performance” structure. The aggregate notional amount of the 2017 OPP grant is $12.0 million. 302,000 LTIP units were granted in connection with the 2017 OPP. LTIP units will be awarded if the performance criteria are met in accordance with the OPPs.

On May 10, 2017, the Company issued 7.7 million common shares of beneficial interest in an underwritten public offering pursuant to the Company's effective shelf registration statement previously filed on Form S-3 with the SEC on August 5, 2016. This offering generated cash proceeds of $193.5 million, net of $1.3 million of issuance costs. We intend to use the proceeds of this offering for development and redevelopment projects and for general corporate purposes including potential acquisitions that may be identified in the future.

Other equity activity during the six months ended June 30, 2017 included: (i) 137,259 stock options granted, (ii) 104,698 restricted shares granted, (iii) 31,734 LTIP units granted, (iv) 53,236 restricted shares vested, (v) 16,789 LTIP units vested, (vi) 11,760 2015 OPP LTIP units forfeited, (vii) 5,879 stock options forfeited, and (viii) 5,251 restricted shares forfeited.

The Operating Partnership issued 1.8 million OP units in connection with the acquisition of Yonkers Gateway Center on January 4, 2017 at a value of $27.09 per unit. On May 24 and 25, 2017, the Operating Partnership issued 2.6 million OP units and 1.9 million OP units, respectively, in connection with the Portfolio acquisition at a value of $27.02 per unit.

Comparison of the Three Months Ended June 30, 2017 to June 30, 2016

Net income for the three months ended June 30, 2017 was $14.9 million, compared to net income of $36.1 million for the three months ended June 30, 2016. The following table summarizes certain line items from our consolidated statements of income that we believe are important in understanding our operations and/or those items which significantly changed in the three months ended June 30, 2017 as compared to the same period of 2016:

	For the Three Months ended June 30,		
(Amounts in thousands)	2017	2016	$ Change
Total revenue	$89,501	$79,457	$10,044
Property operating expenses	11,088	9,840	1,248
Depreciation and amortization	23,701	13,558	10,143
Real estate taxes	14,711	12,723	1,988
Real estate impairment loss	303	—	303
Gain on sale of real estate	—	15,618	(15,618)
Interest and debt expense	13,627	12,820	807
Income tax benefit (expense)	(304)	306	(610)

Total revenue increased by $10.0 million to $89.5 million in the second quarter of 2017 from $79.5 million in the second quarter of 2016. The increase is primarily attributable to:

- $4.1 million net increase as a result of acquisitions and dispositions that closed since June 2016;
- $4.0 million increase in tenant expense reimbursements due to an increase in recoverable expenses and revenue from recoverable capital projects;
- $1.9 million net increase in property rentals due to rent commencements and contractual rent increases;
- $0.2 million increase in other income due to an increase in tenant bankruptcy settlement income received during the second quarter of 2017;
- partially offset by a $0.2 million decrease in management and development fee income due to a decrease in development activity at managed properties.

Property operating expenses increased by $1.2 million to $11.1 million in the second quarter of 2017 from $9.8 million in the second quarter of 2016. The increase is primarily attributable to an increase in common area maintenance expenses as a result of acquisitions that closed since June 2016.

Depreciation and amortization increased by $10.1 million to $23.7 million in the second quarter of 2017 from $13.6 million in the second quarter of 2016. The increase is primarily attributable to:

- $4.7 million net increase as a result of acquisitions and dispositions that closed since June 2016;
- $4.4 million increase in amortization of in-place leases as a result of the write-off of the existing intangible assets at Yonkers Gateway Center upon acquisition of the remaining fee and leasehold interests; and

- $1.0 million increase from development projects and tenant improvements placed into service since June 2016.

Real estate taxes increased by $2.0 million to $14.7 million in the second quarter of 2017 from $12.7 million in the second quarter of 2016. The increase is primarily attributable to:

- $1.1 million net increase as a result of acquisitions and dispositions that closed since June 2016;
- $0.8 million increase due to higher assessed values and tax refunds received in 2016; and

- $0.1 million increase due to additional real estate taxes capitalized in the second quarter of 2016 related to space taken out of service for development and redevelopment projects.

Real estate impairment loss of $0.3 million was recognized in the second quarter of 2017 for our property previously classified as held for sale in Eatontown, NJ, based on the final net sales price at closing on June 30, 2017.

Gain on sale of real estate assets of $15.6 million in the second quarter of 2016 was incurred as a result of the sale of our property in Waterbury, CT on June 9, 2016.

Interest and debt expense increased by $0.8 million to $13.6 million in the second quarter of 2017 from $12.8 million in the second quarter of 2016. The increase is primarily attributable to interest from loans issued and assumed on acquisitions closed since June 2016.

Income tax expense of $0.3 million was recognized in the second quarter of 2017 as compared to a $0.3 million benefit in the second quarter of 2016 as a result of a $0.6 million reduction to the accrued income tax liability recorded in the second quarter of 2016, offset by the period’s income tax expense accrual.

Comparison of the Six Months Ended June 30, 2017 to June 30, 2016

Net income for the six months ended June 30, 2017 was $69.7 million, compared to net income of $55.9 million for the six months ended June 30, 2016. The following table summarizes certain line items from our consolidated statements of income that we believe are important in understanding our operations and/or those items which significantly changed in the six months ended June 30, 2017 as compared to the same period of 2016:

	For the Six Months ended June 30,		
(Amounts in thousands)	2017	2016	$ Change
Total revenue	$215,565	$162,525	$53,040
Property operating expenses	24,456	22,699	1,757
General and administrative expenses	15,790	14,255	1,535
Depreciation and amortization	39,529	27,473	12,056
Real estate taxes	28,103	25,972	2,131
Real estate impairment loss	3,467	—	3,467
Gain on sale of real estate	—	15,618	(15,618)
Interest and debt expense	26,742	26,249	493
Loss on extinguishment of debt	1,274	—	1,274
Income tax expense	624	30	594

Total revenue increased by $53.0 million to $215.6 million in the six months ended June 30, 2017 from $162.5 million in the six months ended June 30, 2016. The increase is primarily attributable to:

- $39.2 million income from acquired leasehold interest due to the write-off of the unamortized intangible liability related to the below-market ground lease acquired and existing straight-line receivable balance in connection with the acquisition of the ground lease at Shops at Bruckner;
- $7.3 million net increase as a result of acquisitions and dispositions that closed since June 2016;
- $2.4 million net increase in property rentals due to rent commencements, contractual rent increases and an increase in percentage rental income, partially offset by tenant vacancies primarily at properties undergoing development;
- $5.3 million increase in tenant expense reimbursements due to an increase in recoverable expenses and revenue from recoverable capital projects;
- partially offset by a $0.9 million decrease in other income due to a decrease in tenant bankruptcy settlement income received during 2017; and
- $0.2 million decrease in management and development fee income due to less development activity in 2017 at managed properties.

Property operating expenses increased by $1.8 million to $24.5 million in the six months ended June 30, 2017 from $22.7 million in the six months ended June 30, 2016. The increase is primarily attributable to an increase in common area maintenance expenses as a result of acquisitions that closed since June 2016.

General and administrative expenses increased by $1.5 million to $15.8 million in the six months ended June 30, 2017 from $14.3 million in the six months ended June 30, 2016. The increase is primarily attributable to:

- $0.9 million net increase in employment costs including $0.5 million severance expense and $0.4 million increase in salary, bonus and benefits; and

- $0.6 million net increase in legal, other professional fees and costs related to information technology.

Depreciation and amortization increased by $12.1 million to $39.5 million in the six months ended June 30, 2017 from $27.5 million in the six months ended June 30, 2016. The increase is primarily attributable to:

- $5.7 million net increase as a result of acquisitions and dispositions that closed since June 2016;
- $4.4 million increase in amortization of in-place leases as a result of the write-off of the existing intangible assets at Yonkers Gateway Center upon acquisition of the remaining fee and leasehold interests; and
- $2.0 million increase from development projects and tenant improvements placed into service since June 2016.

Real estate taxes increased by $2.1 million to $28.1 million in the six months ended June 30, 2017 from $26.0 million in the six months ended June 30, 2016. The increase is primarily attributable to:

- $1.3 million net increase as a result of acquisitions and dispositions that closed since June 2016; and
- $0.8 million increase due to higher assessed values and tax refunds received in 2016.

Real estate impairment loss of $3.5 million in the six months ended June 30, 2017 was recognized on our property previously classified as held for sale in Eatontown, NJ, due to the book value of this property exceeding its fair value less costs to sell. The Company’s determination of fair value was based on the executed contract of sale with the third-party buyer less selling costs.

Gain on sale of real estate assets of $15.6 million was incurred in the six months ended June 30, 2016 as a result of the sale of our property in Waterbury, CT on June 9, 2016.

Interest and debt expense increased $0.5 million to $26.7 million in the six months ended June 30, 2017 from $26.2 million in the six months ended June 30, 2016. The increase is primarily attributable to:

- $1.1 million increase of interest from loans issued and assumed on acquisitions closed since June 2016;
- partially offset by $0.4 million of higher interest capitalized related to increased levels of development; and
- $0.2 million due to a lower mortgage payable balance as a result of scheduled principal payments and debt prepayment in connection with the sale of our property in Waterbury, CT during the second quarter of 2016.

Loss on extinguishment of debt of $1.3 million in the six months ended June 30, 2017 was recognized as a result of the refinancing of our mortgage loan secured by our Tonnelle Commons property in North Bergen, NJ. The loss on extinguishment of debt is comprised of a $1.2 million prepayment penalty and $0.1 million of unamortized deferred financing fees on the original loan.

Income tax expense increased by $0.6 million in the six months ended June 30, 2017 as a result of a $0.6 million reduction to the accrued income tax liability recorded in the six months ended June 30, 2016.

Non-GAAP Financial Measures

Throughout this section, we have provided certain information on a “same-property” cash basis which includes the results of operations that we consolidated, owned and operated for the entirety of both periods being compared, totaling 76 properties for the three and six months ended June 30, 2017 and 2016. Information provided on a same-property basis excludes properties that were under development, redevelopment or that involve anchor repositioning where a substantial portion of the gross leasable area is taken out of service and also excludes properties acquired, sold, under contract to be sold, or that are in the foreclosure process during the periods being compared. While there is judgment surrounding changes in designations, a property is removed from the same-property pool when a property is considered to be a redevelopment property because it is undergoing significant renovation or retenanting pursuant to a formal plan and is expected to have a significant impact on property operating income based on the retenanting that is occurring. A development or redevelopment property is moved back to the same-property pool once a substantial portion of the NOI growth expected from the development or redevelopment is reflected in both the current and comparable prior year period, generally one year after at least 80% of the expected NOI from the project is realized on a cash basis for a full quarter. Acquisitions are moved into the same-property pool once we have owned the property for the entirety of the comparable periods and the property is not under significant development or redevelopment.

We calculate same-property cash NOI using net income as defined by GAAP reflecting only those income and expense items that are incurred at the property level, adjusted for the following items: lease termination fees, bankruptcy settlement income, non-cash rental income and ground rent expense and income or expenses that we do not believe are representative of ongoing operating results, if any.

The most directly comparable GAAP financial measure to cash NOI is net income. Cash NOI excludes certain components from net income in order to provide results that are more closely related to a property's results of operations. We calculate cash NOI by adjusting GAAP operating income to add back depreciation and amortization expense, general and administrative expenses, real estate impairment losses and non-cash ground rent expense, and deduct non-cash rental income resulting from the straight-lining of rents and amortization of acquired below market leases net of above market leases.

We use cash NOI internally to make investment and capital allocation decisions and to compare the unlevered performance of our properties to our peers. Further, we believe cash NOI is useful to investors as a performance measure because, when compared across periods, cash NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and disposition activity on an unleveraged basis, providing perspective not immediately apparent from operating income or net income. As such, cash NOI assists in eliminating disparities in net income due to the development, redevelopment, acquisition or disposition of properties during the periods presented, and thus provides a more consistent performance measure for the comparison of the operating performance of the Company's properties. Cash NOI and same-property cash NOI should not be considered substitutes for operating income or net income and may not be comparable to similarly titled measures employed by others.
Same-property cash NOI increased by $2.3 million, or 5.0%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and by $4.9 million, or 5.3%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

The following table reconciles net income to cash NOI and same-property cash NOI for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	2017	2016	2017	2016
Net income	$14,920	$36,071	$69,655	$55,859
Add: income tax expense (benefit)	304	(306)	624	30
Income before income taxes	15,224	35,765	70,279	55,889
Interest income	(336)	(177)	(463)	(344)
Gain on sale of real estate	—	(15,618)	—	(15,618)
Interest and debt expense	13,627	12,820	26,742	26,249
Loss on extinguishment of debt	—	—	1,274	—
Operating income	28,515	32,790	97,832	66,176
Depreciation and amortization	23,701	13,558	39,529	27,473
Real estate impairment loss	303	—	3,467	—
General and administrative expense	7,709	7,535	15,790	14,255
Transaction costs	132	34	183	84
NOI	60,360	53,917	156,801	107,988
Less: non-cash revenue and expenses	(1,452)	(1,454)	(42,253)	(3,265)
Cash NOI[(1)]	58,908	52,463	114,548	104,723
Adjustments:				
Cash NOI related to properties being redeveloped[(1)]	(5,414)	(4,851)	(10,868)	(9,525)
Cash NOI related to properties acquired, disposed, or in foreclosure[(1)]	(4,050)	(477)	(5,628)	(970)
Management and development fee income from non-owned properties	(351)	(526)	(830)	(981)
Tenant bankruptcy settlement income	(486)	(340)	(513)	(1,490)
Other[(2)]	20	36	12	84
Subtotal adjustments	(10,281)	(6,158)	(17,827)	(12,882)
Same-property cash NOI	$			