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Urban Edge Properties
Form 10-Q
November 01, 2017

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

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

For the quarterly period ended September 30, 2017
OR

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

For the transition period from _____ to _____

Commission File Number: 001-36523 (Urban Edge Properties)
Commission File Number: 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 NO Urban Edge Properties LP YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Urban Edge Properties YES NO Urban Edge Properties LP YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Urban Edge Properties:

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

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

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Urban Edge Properties 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 October 27, 2017, Urban Edge Properties had 113,817,429 common shares outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 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 “UERP” and the “Operating Partnership” mean Urban Edge Properties LP, a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively UE, UERP and those entities/subsidiaries consolidated by UE. UERP is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. UE is the sole general partner and also a limited partner of UERP. As the sole general partner of UERP, UE has exclusive control of UERP’s day-to-day management.

As of September 30, 2017, UE owned an approximate 89.9% ownership interest in UERP. The remaining approximate 10.1% interest is owned by limited partners. The other limited partners of UERP are Vornado Realty L.P., members of management, our Board of Trustees, and contributors of property interests acquired. Under the limited partnership agreement of UERP, unitholders may present their common units of UERP for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time). Upon presentation of a common unit for redemption, UERP must redeem the unit for cash equal to the then value of a share of UE’s common shares, as defined by the limited partnership agreement. In lieu of cash redemption by UERP, however, UE may elect to acquire any common units so tendered by issuing common shares of UE in exchange for the common units. If UE so elects, its common shares will be exchanged for common units on a one-for-one basis. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. UE generally expects that it will elect to issue its common shares in connection with each such presentation for redemption rather than having UERP pay cash. With each such exchange or redemption, UE’s percentage ownership in UERP will increase. In addition, whenever UE issues common shares other than to acquire common units of UERP, UE must contribute any net proceeds it receives to UERP and UERP must issue to UE an equivalent number of common units of UERP. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

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

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

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

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

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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 SEPTEMBER 30, 2017

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
URBAN EDGE PROPERTIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Real estate, at cost:		
Land	\$522,085	\$384,217
Buildings and improvements	2,013,767	1,650,054
Construction in progress	117,830	99,236
Furniture, fixtures and equipment	7,129	4,993
Total	2,660,811	2,138,500
Accumulated depreciation and amortization	(586,187)	(541,077)
Real estate, net	2,074,624	1,597,423
Cash and cash equivalents	380,395	131,654
Restricted cash	8,363	8,532
Tenant and other receivables, net of allowance for doubtful accounts of \$3,469 and \$2,332, respectively	24,063	9,340
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of \$260 and \$261, respectively	85,853	87,695
Identified intangible assets, net of accumulated amortization of \$29,771 and \$22,361, respectively	91,305	30,875
Deferred leasing costs, net of accumulated amortization of \$15,556 and \$13,909, respectively	20,500	19,241
Deferred financing costs, net of accumulated amortization of \$1,484 and \$726, respectively	4,492	1,936
Prepaid expenses and other assets	16,917	17,442
Total assets	\$2,706,512	\$1,904,138
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,408,066	\$1,197,513
Identified intangible liabilities, net of accumulated amortization of \$63,468 and \$72,528, respectively	184,061	146,991
Accounts payable and accrued expenses	65,769	48,842
Other liabilities	16,542	14,675
Total liabilities	1,674,438	1,408,021
Commitments and contingencies		
Shareholders' equity:		
Common shares: \$0.01 par value; 500,000,000 shares authorized and 113,817,429 and 99,754,900 shares issued and outstanding, respectively	1,138	997
Additional paid-in capital	945,047	488,375
Accumulated deficit	(18,322)	(29,066)
Noncontrolling interests:		
Redeemable noncontrolling interests	103,818	35,451
Noncontrolling interest in consolidated subsidiaries	393	360

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Total equity	1,032,074	496,117
Total liabilities and equity	\$2,706,512	\$1,904,138

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUE				
Property rentals	\$69,625	\$59,138	\$196,831	\$176,750
Tenant expense reimbursements	23,938	19,888	71,590	62,274
Management and development fees	369	375	1,199	1,356
Income from acquired leasehold interest	—	—	39,215	—
Other income	169	572	831	2,118
Total revenue	94,101	79,973	309,666	242,498
EXPENSES				
Depreciation and amortization	20,976	14,435	60,505	41,908
Real estate taxes	15,872	12,729	43,975	38,701
Property operating	11,402	9,897	35,858	32,596
General and administrative	6,930	6,618	22,720	20,873
Casualty and impairment loss	2,170	—	5,637	—
Ground rent	2,891	2,508	7,997	7,529
Transaction costs	95	223	278	307
Provision for doubtful accounts	575	149	1,674	994
Total expenses	60,911	46,559	178,644	142,908
Operating income	33,190	33,414	131,022	99,590
Gain on sale of real estate	202	—	202	15,618
Interest income	719	176	1,182	520
Interest and debt expense	(14,637)	(12,766)	(41,379)	(39,015)
Loss on extinguishment of debt	—	—	(1,274)	—
Income before income taxes	19,474	20,824	89,753	76,713
Income tax expense	(318)	(319)	(942)	(349)
Net income	19,156	20,505	88,811	76,364
Less (net income) loss attributable to noncontrolling interests in:				
Operating partnership	(1,967)	(1,239)	(7,431)	(4,594)
Consolidated subsidiaries	(11)	(1)	(33)	1
Net income attributable to common shareholders	\$17,178	\$19,265	\$81,347	\$71,771
Earnings per common share - Basic:	\$0.15	\$0.19	\$0.77	\$0.72
Earnings per common share - Diluted:	\$0.15	\$0.19	\$0.77	\$0.72
Weighted average shares outstanding - Basic	110,990	99,304	104,938	99,281
Weighted average shares outstanding - Diluted	111,260	99,870	115,323	99,711

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		Additional Paid-In Capital	Accumulated Earnings (Deficit)	Noncontrolling Interests ("NCI")		Total Equity
	Shares	Amount			Redeemable NCI	NCI in Consolidated Subsidiaries	
Balance, December 31, 2016	99,754,900	\$ 997	\$488,375	\$ (29,066)	\$35,451	\$ 360	\$496,117
Net income attributable to common shareholders	—	—	—	81,347	—	—	81,347
Net income attributable to noncontrolling interests	—	—	—	—	7,431	33	7,464
Limited partnership units issued	—	—	105,279	—	65,805	—	171,084
Common shares issued	14,073,037	141	348,326	(253)	—	—	348,214
Share-based awards withheld for taxes	(10,508)	—	(287)	—	—	—	(287)
Dividends on common shares (\$0.66 per share)	—	—	—	(70,408)	—	—	(70,408)
Share-based compensation expense	—	—	3,354	58	1,836	—	5,248
Distributions to redeemable NCI (\$0.66 per unit)	—	—	—	—	(6,705)	—	(6,705)
Balance, September 30, 2017	113,817,429	\$ 1,138	\$945,047	\$ (18,322)	\$103,818	\$ 393	\$1,032,074

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$88,811	\$76,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60,576	42,682
Income from acquired leasehold interest	(39,215)	—
Casualty and impairment loss	5,637	—
Loss on extinguishment of debt	1,274	—
Amortization of deferred financing costs	2,175	2,106
Amortization of below market leases, net	(6,842)	(5,907)
Straight-lining of rent	520	(97)
Share-based compensation expense	5,248	4,080
Gain on sale of real estate	(202)	(15,618)
Provision for doubtful accounts	1,674	994
Change in operating assets and liabilities:		
Tenant and other receivables	(9,605)	(821)
Deferred leasing costs	(3,556)	(2,624)
Prepaid and other assets	(6,073)	(1,954)
Accounts payable and accrued expenses	12,372	(1,368)
Other liabilities	1,704	1,346
Net cash provided by operating activities	114,498	99,183
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate development and capital improvements	(55,941)	(45,668)
Acquisition of real estate	(211,393)	(2,000)
Proceeds from sale of real estate	5,005	19,938
Net cash used in investing activities	(262,329)	(27,730)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(88,559)	(34,008)
Dividends paid to shareholders	(70,408)	(59,390)
Distributions to redeemable noncontrolling interests	(6,705)	(3,711)
Debt issuance costs	(11,352)	—
Taxes withheld for vested restricted shares	(287)	(38)
Proceeds from issuance of common shares	348,214	5,020
Proceeds from borrowings	225,500	—
Net cash provided by (used in) financing activities	396,403	(92,127)
Net increase (decrease) in cash and cash equivalents and restricted cash	248,572	(20,674)
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	\$388,758	\$157,351

See notes to consolidated financial statements (unaudited).

	Nine Months Ended September 30,	
	2017	2016
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payment for interest, includes amounts capitalized of \$2,912 and \$2,755, respectively	\$40,567	\$38,503
Cash payments for income taxes	1,237	1,258
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	15,226	12,340
Write-off of fully depreciated assets	910	958
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	\$380,395	\$149,698
Restricted cash at end of period	8,363	7,653
Cash and cash equivalents and restricted cash at end of period	\$388,758	\$157,351

See notes to consolidated financial statements (unaudited).

URBAN EDGE PROPERTIES LP
CONSOLIDATED BALANCE SHEETS

(In thousands, except unit and per unit amounts)

	September 30, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Real estate, at cost:		
Land	\$522,085	\$384,217
Buildings and improvements	2,013,767	1,650,054
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LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,408,066	\$1,197,513
Identified intangible liabilities, net of accumulated amortization of \$63,468 and \$72,528, respectively	184,061	146,991
Accounts payable and accrued expenses	65,769	48,842
Other liabilities	16,542	14,675
Total liabilities	1,674,438	1,408,021
Commitments and contingencies		
Equity:		
Partners' capital:		
General partner: 113,817,429 and 99,754,900 units outstanding, respectively	946,185	489,372
Limited partners: 12,729,634 and 6,378,704 units outstanding, respectively	104,722	37,081
Accumulated deficit	(19,226)	(30,696)
Total partners' capital	1,031,681	495,757
Noncontrolling interest in consolidated subsidiaries	393	360
Total equity	1,032,074	496,117
Total liabilities and equity	\$2,706,512	\$1,904,138

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUE				
Property rentals	\$69,625	\$59,138	\$196,831	\$176,750
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Income from acquired leasehold interest	—	—	39,215	—
Other income	169	572	831	2,118
Total revenue	94,101	79,973	309,666	242,498
EXPENSES				
Depreciation and amortization	20,976	14,435	60,505	41,908
Real estate taxes	15,872	12,729	43,975	38,701
Property operating	11,402	9,897	35,858	32,596
General and administrative	6,930	6,618	22,720	20,873
Casualty and impairment loss	2,170	—	5,637	—
Ground rent	2,891	2,508	7,997	7,529
Transaction costs	95	223	278	307
Provision for doubtful accounts	575	149	1,674	994
Total expenses	60,911	46,559	178,644	142,908
Operating income	33,190	33,414	131,022	99,590
Gain on sale of real estate	202	—	202	15,618
Interest income	719	176	1,182	520
Interest and debt expense	(14,637)	(12,766)	(41,379)	(39,015)
Loss on extinguishment of debt	—	—	(1,274)	—
Income before income taxes	19,474	20,824	89,753	76,713
Income tax expense	(318)	(319)	(942)	(349)
Net income	19,156	20,505	88,811	76,364
Less: (net income) loss attributable to NCI in consolidated subsidiaries	(11)	(1)	(33)	1
Net income attributable to unitholders	\$19,145	\$20,504	\$88,778	\$76,365
Earnings per unit - Basic:	\$0.15	\$0.19	\$0.77	\$0.72
Earnings per unit - Diluted:	\$0.15	\$0.19	\$0.77	\$0.72
Weighted average units outstanding - Basic	123,433	105,404	114,979	105,370
Weighted average units outstanding - Diluted	123,703	105,970	115,323	105,800

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	—	—	88,778		