

Edgar Filing: Urban Edge Properties - Form 10-Q

Urban Edge Properties
Form 10-Q
October 31, 2018

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, 2018
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: 333-212951-01 (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 every Interactive Data File required to be submitted 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 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 a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Urban Edge Properties:

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company	Emerging Growth Company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Urban Edge Properties LP:

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company	Emerging Growth Company
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 13(a) of the Exchange Act.

Urban Edge Properties Urban Edge Properties LP

Edgar Filing: Urban Edge Properties - Form 10-Q

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

Urban Edge Properties YES NO Urban Edge Properties LP YES NO

As of October 26, 2018, Urban Edge Properties had 114,305,607 common shares outstanding.

URBAN EDGE PROPERTIES AND URBAN EDGE PROPERTIES LP
 QUARTERLY REPORT ON FORM 10-Q
 QUARTER ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS

PART I

<u>Item 1.</u>	Financial Statements	
	Consolidated Financial Statements of Urban Edge Properties:	
	Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (unaudited)	<u>1</u>
	Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)	<u>2</u>
	Consolidated Statement of Changes in Equity for the Nine Months Ended September 30, 2018 (unaudited)	<u>3</u>
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (unaudited)	<u>4</u>
	Consolidated Financial Statements of Urban Edge Properties LP:	
	Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (unaudited)	<u>6</u>
	Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)	<u>7</u>
	Consolidated Statement of Changes in Equity for the Nine Months Ended September 30, 2018 (unaudited)	<u>8</u>
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (unaudited)	<u>9</u>
	Urban Edge Properties and Urban Edge Properties LP	
	Notes to Consolidated Financial Statements (unaudited)	<u>11</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>26</u>
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	<u>40</u>
Item 4.	Controls and Procedures	<u>41</u>

PART II

Item 1.	Legal Proceedings	<u>41</u>
Item 1A.	Risk Factors	<u>41</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>42</u>
Item 3.	Defaults Upon Senior Securities	<u>42</u>
Item 4.	Mine Safety Disclosures	<u>42</u>
Item 5.	Other Information	<u>42</u>
Item 6.	Exhibits	<u>43</u>
	Signatures	<u>44</u>

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2018 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 September 30, 2018, UE owned an approximate 89.8% ownership interest in UELP. The remaining approximate 10.2% 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 agreement, 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.

Edgar Filing: Urban Edge Properties - Form 10-Q

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 14, Equity and Noncontrolling Interest and Note 16, 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.

PART I - FINANCIAL INFORMATION

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

(In thousands, except share and per share amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Real estate, at cost:		
Land	\$533,859	\$521,669
Buildings and improvements	2,132,712	2,010,527
Construction in progress	79,488	133,761
Furniture, fixtures and equipment	6,662	5,897
Total	2,752,721	2,671,854
Accumulated depreciation and amortization	(633,675)	(587,127)
Real estate, net	2,119,046	2,084,727
Cash and cash equivalents	449,307	490,279
Restricted cash	16,269	10,562
Tenant and other receivables, net of allowance for doubtful accounts of \$6,485 and \$4,937, respectively	28,799	20,078
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of \$662 and \$494, respectively	84,828	85,843
Identified intangible assets, net of accumulated amortization of \$38,905 and \$33,827, respectively	72,841	87,249
Deferred leasing costs, net of accumulated amortization of \$16,043 and \$14,796, respectively	21,088	20,268
Deferred financing costs, net of accumulated amortization of \$2,508 and \$1,740, respectively	2,475	3,243
Prepaid expenses and other assets	16,194	18,559
Total assets	\$2,810,847	\$2,820,808
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,550,995	\$1,564,542
Accounts payable and accrued expenses	70,227	69,595
Identified intangible liabilities, net of accumulated amortization of \$64,252 and \$65,832, respectively	148,715	180,959
Other liabilities	17,656	15,171
Total liabilities	1,787,593	1,830,267
Commitments and contingencies		
Shareholders' equity:		
Common shares: \$0.01 par value; 500,000,000 shares authorized and 114,175,607 and 113,827,529 shares issued and outstanding, respectively	1,141	1,138
Additional paid-in capital	951,959	946,402
Accumulated deficit	(34,221)	(57,621)
Noncontrolling interests:		

Edgar Filing: Urban Edge Properties - Form 10-Q

Operating partnership	103,937	100,218
Consolidated subsidiaries	438	404
Total equity	1,023,254	990,541
Total liabilities and equity	\$2,810,847	\$2,820,808

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUE				
Property rentals	\$85,949	\$69,625	\$230,217	\$196,831
Tenant expense reimbursements	25,784	23,938	80,678	71,590
Management and development fees	375	369	1,064	1,199
Income from acquired leasehold interest	—	—	—	39,215
Other income	106	169	1,278	831
Total revenue	112,214	94,101	313,237	309,666
EXPENSES				
Depreciation and amortization	21,833	20,976	73,544	60,505
Real estate taxes	16,374	15,872	47,736	43,975
Property operating	22,249	11,402	59,408	35,858
General and administrative	9,702	7,025	25,579	22,998
Casualty and impairment loss (gain), net	58	2,170	(1,248)	5,637
Ground rent	2,722	2,891	8,210	7,997
Provision for doubtful accounts	79	575	2,588	1,674
Total expenses	73,017	60,911	215,817	178,644
Operating income	39,197	33,190	97,420	131,022
Gain on sale of real estate	2,185	202	52,625	202
Interest income	2,388	719	5,943	1,182
Interest and debt expense	(16,756)	(14,637)	(48,059)	(41,379)
Gain (loss) on extinguishment of debt	—	—	2,524	(1,274)
Income before income taxes	27,014	19,474	110,453	89,753
Income tax expense	(115)	(318)	(741)	(942)
Net income	26,899	19,156	109,712	88,811
Less net income attributable to noncontrolling interests in:				
Operating partnership	(2,688)	(1,967)	(11,041)	(7,431)
Consolidated subsidiaries	(11)	(11)	(34)	(33)
Net income attributable to common shareholders	\$24,200	\$17,178	\$98,637	\$81,347
Earnings per common share - Basic:	\$0.21	\$0.15	\$0.87	\$0.77
Earnings per common share - Diluted:	\$0.21	\$0.15	\$0.86	\$0.77
Weighted average shares outstanding - Basic	113,890	110,990	113,769	104,938
Weighted average shares outstanding - Diluted	114,156	111,260	114,236	115,323

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			Accumulated Earnings (Deficit)	Noncontrolling Interests ("NCI")		Total Equity
	Shares	Amount	Additional Paid-In Capital		Operating Partnership	Consolidated Subsidiaries	
Balance, December 31, 2017	113,827,529	\$ 1,138	\$ 946,402	\$ (57,621)	\$ 100,218	\$ 404	\$ 990,541
Net income attributable to common shareholders	—	—	—	98,637	—	—	98,637
Net income attributable to noncontrolling interests	—	—	—	—	11,041	34	11,075
Limited partnership interests:							
Units redeemed for common shares	249,110	2	2,041	—	—	—	2,043
Reallocation of noncontrolling interests	—	—	(21)	—	(2,022)	—	(2,043)
Common shares issued	116,158	2	452	(139)	—	—	315
Dividends to common shareholders (\$0.66 per share)	—	—	—	(75,122)	—	—	(75,122)
Distributions to redeemable NCI (\$0.66 per unit)	—	—	—	—	(8,301)	—	(8,301)
Share-based compensation expense	—	—	3,469	24	3,001	—	6,494
Share-based awards retained for taxes	(17,190)	(1)	(384)	—	—	—	(385)
Balance, September 30, 2018	114,175,607	\$ 1,141	\$ 951,959	\$ (34,221)	\$ 103,937	\$ 438	\$ 1,023,254

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$109,712	\$88,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,025	60,576
Income from acquired leasehold interest	—	(39,215)
Casualty and impairment loss	—	5,637
Gain on sale of real estate	(52,625)	(202)
(Gain) loss on extinguishment of debt	(2,524)	1,274
Amortization of deferred financing costs	2,159	2,175
Amortization of below market leases, net	(29,767)	(6,842)
Straight-lining of rent	(381)	520
Share-based compensation expense	6,494	5,248
Provision for doubtful accounts	2,588	1,674
Change in operating assets and liabilities:		
Tenant and other receivables	(12,812)	(9,605)
Deferred leasing costs	(3,441)	(3,556)
Prepaid and other assets	(1,359)	(6,073)
Accounts payable and accrued expenses	(6,378)	12,372
Other liabilities	2,431	1,704
Net cash provided by operating activities	88,122	114,498
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate development and capital improvements	(90,703)	(55,941)
Acquisition of real estate	(4,931)	(211,393)
Proceeds from sale of operating properties	57,593	5,005
Insurance proceeds	1,300	—
Net cash used in investing activities	(36,741)	(262,329)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(3,153)	(88,559)
Dividends to common shareholders	(75,122)	(70,408)
Distributions to redeemable noncontrolling interests	(8,301)	(6,705)
Debt issuance costs	—	(11,352)
Taxes withheld for vested restricted shares	(385)	(287)
Proceeds related to the issuance of common shares	315	348,214
Proceeds from borrowings	—	225,500
Net cash (used in) provided by financing activities	(86,646)	396,403
Net (decrease) increase in cash and cash equivalents and restricted cash	(35,265)	248,572
Cash and cash equivalents and restricted cash at beginning of period	500,841	140,186
Cash and cash equivalents and restricted cash at end of period	\$465,576	\$388,758

See notes to consolidated financial statements (unaudited).

	Nine Months Ended September 30,	
	2018	2017
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payment for interest, includes amounts capitalized of \$2,769 and \$2,912, respectively	\$49,549	\$40,567
Cash payments for income taxes	757	1,237
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures included in accounts payable and accrued expenses	24,100	15,226
Mortgage debt forgiven in foreclosure sale	11,537	—
Write-off of fully depreciated assets	10,407	910
Acquisition of real estate through issuance of OP units	—	171,084
Acquisition of real estate through assumption of debt	—	69,659
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents at beginning of period	\$490,279	\$131,654
Restricted cash at beginning of period	10,562	8,532
Cash and cash equivalents and restricted cash at beginning of period	\$500,841	\$140,186
Cash and cash equivalents at end of period	\$449,307	\$380,395
Restricted cash at end of period	16,269	8,363
Cash and cash equivalents and restricted cash at end of period	\$465,576	\$388,758

See notes to consolidated financial statements (unaudited).

URBAN EDGE PROPERTIES LP
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except unit and per unit amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Real estate, at cost:		
Land	\$533,859	\$521,669
Buildings and improvements	2,132,712	2,010,527
Construction in progress	79,488	133,761
Furniture, fixtures and equipment	6,662	5,897
Total	2,752,721	2,671,854
Accumulated depreciation and amortization	(633,675)	(587,127)
Real estate, net	2,119,046	2,084,727
Cash and cash equivalents	449,307	490,279
Restricted cash	16,269	10,562
Tenant and other receivables, net of allowance for doubtful accounts of \$6,485 and \$4,937, respectively	28,799	20,078
Receivable arising from the straight-lining of rents, net of allowance for doubtful accounts of \$662 and \$494, respectively	84,828	85,843
Identified intangible assets, net of accumulated amortization of \$38,905 and \$33,827, respectively	72,841	87,249
Deferred leasing costs, net of accumulated amortization of \$16,043 and \$14,796, respectively	21,088	20,268
Deferred financing costs, net of accumulated amortization of \$2,508 and \$1,740, respectively	2,475	3,243
Prepaid expenses and other assets	16,194	18,559
Total assets	\$2,810,847	\$2,820,808
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,550,995	\$1,564,542
Accounts payable and accrued expenses	70,227	69,595
Identified intangible liabilities, net of accumulated amortization of \$64,252 and \$65,832, respectively	148,715	180,959
Other liabilities	17,656	15,171
Total liabilities	1,787,593	1,830,267
Commitments and contingencies		
Equity:		
Partners' capital:		
General partner: 114,175,607 and 113,827,529 units outstanding, respectively	953,100	947,540
Limited partners: 12,908,526 and 12,812,954 units outstanding, respectively	106,474	105,495
Accumulated deficit	(36,758)	(62,898)
Total partners' capital	1,022,816	990,137
Noncontrolling interest in consolidated subsidiaries	438	404
Total equity	1,023,254	990,541
Total liabilities and equity	\$2,810,847	\$2,820,808

See notes to consolidated financial statements (unaudited).

6

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,	
	2018	2017	2018	2017
REVENUE				
Property rentals	\$85,949	\$69,625	\$230,217	\$196,831
Tenant expense reimbursements	25,784	23,938	80,678	71,590
Management and development fees	375	369	1,064	1,199
Income from acquired leasehold interest	—	—	—	39,215
Other income	106	169	1,278	831
Total revenue	112,214	94,101	313,237	309,666
EXPENSES				
Depreciation and amortization	21,833	20,976	73,544	60,505
Real estate taxes	16,374	15,872	47,736	43,975
Property operating	22,249	11,402	59,408	35,858
General and administrative	9,702	7,025	25,579	22,998
Casualty and impairment loss (gain), net	58	2,170	(1,248)	5,637
Ground rent	2,722	2,891	8,210	7,997
Provision for doubtful accounts	79	575	2,588	1,674
Total expenses	73,017	60,911	215,817	178,644
Operating income	39,197	33,190	97,420	131,022
Gain on sale of real estate	2,185	202	52,625	202
Interest income	2,388	719	5,943	1,182
Interest and debt expense	(16,756)	(14,637)	(48,059)	(41,379)
Gain (loss) on extinguishment of debt	—	—	2,524	(1,274)
Income before income taxes	27,014	19,474	110,453	89,753
Income tax expense	(115)	(318)	(741)	(942)
Net income	26,899	19,156	109,712	88,811
Less: net income attributable to NCI in consolidated subsidiaries	(11)	(11)	(34)	(33)
Net income attributable to unitholders	\$26,888	\$19,145	\$109,678	\$88,778
Earnings per unit - Basic:	\$0.21	\$0.15	\$0.87	\$0.77
Earnings per unit - Diluted:	\$0.21	\$0.15	\$0.86	\$0.77
Weighted average units outstanding - Basic	126,208	123,433	126,170	114,979
Weighted average units outstanding - Diluted	126,693	123,703	126,636	115,323

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)

	Total Shares	General Partner	Total Units	Limited Partners ⁽¹⁾	Accumulated Earnings (Deficit)	NCI in Consolidated Subsidiaries	Total Equity
Balance, December 31, 2017	113,827,529	\$947,540	12,812,954	\$105,495	\$ (62,898)	\$ 404	\$990,541
Net income attributable to unitholders	—	—	—	—	109,678	—	109,678
Net income attributable to noncontrolling interests	—	—	—	—	—	34	34
Common units issued as a result of common shares issued by Urban Edge	116,158	454	—	—	(139)	—	315
Equity redemption of OP Units	249,110	2,043	(249,110)	—	—	—	2,043
Limited partnership units issued, net	—	—	344,682	—	—	—	—
Reallocation of noncontrolling interests	—	(21)	—	(2,022)	—	—	(2,043)
Distributions to Partners (\$0.66 per unit)	—	—	—	—	(83,423)	—	(83,423)
Share-based compensation expense	—	3,469	—	3,001	24	—	6,494
Share-based awards retained for taxes	(17,190)	(385)	—	—	—	—	(385)
Balance, September 30, 2018	114,175,607	\$953,100	12,908,526	\$106,474	\$ (36,758)	\$ 438	\$1,023,254

⁽¹⁾ Limited partners have a 10.2% common limited partnership interest in the Operating Partnership as of September 30, 2018 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)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$109,712	\$88,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,025	60,576
Income from acquired leasehold interest	—	(39,215)
Casualty and impairment loss	—	5,637
Gain on sale of real estate	(52,625)	(202)
(Gain) loss on extinguishment of debt	(2,524)	1,274
Amortization of deferred financing costs	2,159	2,175
Amortization of below market leases, net	(29,767)	(6,842)
Straight-lining of rent	(381)	520
Share-based compensation expense	6,494	5,248
Provision for doubtful accounts	2,588	1,674
Change in operating assets and liabilities:		
Tenant and other receivables	(12,812)	(9,605)
Deferred leasing costs	(3,441)	(3,556)
Prepaid and other assets	(1,359)	(6,073)
Accounts payable and accrued expenses	(6,378)	12,372
Other liabilities	2,431	1,704
Net cash provided by operating activities	88,122	114,498
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate development and capital improvements	(90,703)	(55,941)
Acquisition of real estate	(4,931)	(211,393)
Proceeds from sale of operating properties	57,593	5,005
Insurance proceeds	1,300	—
Net cash used in investing activities	(36,741)	(262,329)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(3,153)	(88,559)
Distributions to partners	(83,423)	(77,113)
Debt issuance costs	—	(11,352)
Taxes withheld for vested restricted units	(385)	(287)
Proceeds related to the issuance of common shares	315	348,214
Proceeds from borrowings	—	225,500
Net cash (used in) provided by financing activities	(86,646)	396,403
Net (decrease) increase in cash and cash equivalents and restricted cash	(35,265)	248,572
Cash and cash equivalents and restricted cash at beginning of period	500,841	140,186
Cash and cash equivalents and restricted cash at end of period	\$465,576	\$388,758

See notes to consolidated financial statements (unaudited).

	Nine Months Ended September 30,	
	2018	2017
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payment for interest, includes amounts capitalized of \$2,769 and \$2,912, respectively	\$49,549	\$40,567
Cash payments for income taxes	757	1,237
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures included in accounts payable and accrued expenses	24,100	15,226
Mortgage debt forgiven in foreclosure sale	11,537	—
Write-off of fully depreciated assets	10,407	910
Acquisition of real estate through issuance of OP units	—	171,084
Acquisition of real estate through assumption of debt	—	69,659
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents at beginning of period	\$490,279	\$131,654
Restricted cash at beginning of period	10,562	8,532
Cash and cash equivalents and restricted cash at beginning of period	\$500,841	\$140,186
Cash and cash equivalents at end of period	\$449,307	\$380,395
Restricted cash at end of period	16,269	8,363
Cash and cash equivalents and restricted cash at end of period	\$465,576	\$388,758

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 focused on managing, developing, redeveloping, and acquiring retail real estate in urban communities, primarily in the New York metropolitan area. Urban Edge Properties LP (“UELP” or the “Operating Partnership”) is a Delaware limited partnership formed to serve as UE’s majority-owned partnership subsidiary and to own, through affiliates, all of our 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 September 30, 2018, Urban Edge owned approximately 89.8% 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 September 30, 2018, our portfolio consisted of 83 shopping centers, four malls and a warehouse park totaling approximately 16.3 million square feet (sf).

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 nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. 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, 2017, as filed with the Securities Exchange Commission (“SEC”).

The consolidated balance sheets as of September 30, 2018 and December 31, 2017 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 nine months ended September 30, 2018 and 2017 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 and malls. We do not distinguish our primary business or group our operations on a geographical basis for purposes of measuring performance. The Company’s chief operating decision maker reviews 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

Recently Issued Accounting Literature

Effective January 1, 2018, we adopted (“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 accounting will not apply if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The adoption of this standard resulted in no impact to our consolidated financial statements. 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 the period of modification.

Effective January 1, 2018, we adopted (“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 of real estate. ASU 2017-05 defines “in-substance nonfinancial assets” and includes guidance on partial sales of nonfinancial assets. The adoption of this standard resulted in no material impact to our consolidated financial statements.

Effective January 1, 2018, we adopted (“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. We adopted the standard using the modified retrospective approach which requires applying the new standard to all existing contracts not yet completed as of the effective date. We have completed our evaluation of the standard’s impact on our revenue sources. The adoption of this standard did not have a material impact on our consolidated financial statements but has resulted in additional qualitative disclosures for the three and nine months ended September 30, 2018 and 2017 (refer to Note 4 Revenues).

In February 2016, the FASB issued an update (“ASU 2016-02”) Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a two-model approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The new standard requires lessors to account for the leases using an approach that is substantially equivalent to existing guidance for sales-type lease, direct financing leases and operating leases.

ASU 2016-02 originally stated that companies would be required to bifurcate certain lease revenues between lease and non-lease components, however, in July 2018, the FASB issued an update (“ASU 2018-11”) Leases: Targeted Improvements which provides lessors a practical expedient to account for lease and non-lease components as a single lease component if certain criteria are met. ASU 2016-02 originally required a modified retrospective method of adoption, however, ASU 2018-11 provides companies with an additional transition method of recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The provisions of ASU 2016-02 are effective January 1, 2019, with early adoption permitted. We plan to adopt this standard January 1, 2019 and elect the practical expedient package, which will be applied consistently to all of our leases. As of September 30, 2018, we are finalizing our evaluation of the standard’s impact on the Company’s consolidated financial statements and accounting policies. For leases where we are the lessor, adoption will not have a material impact and we will continue to record revenues from rental properties for our operating leases on a straight-line basis. For leases where we are a lessee, we will be required to record a right-of-use asset and lease liability on our consolidated balance sheet. We are finalizing the inputs required to calculate the amounts that will be recorded on our consolidated balance sheets for these leases. Further, internal leasing department costs previously capitalized will be expensed within general and administrative expenses. Historical capitalization of internal leasing costs was \$0.5 million for each of the nine months ended September 30, 2018 and September 30, 2017, respectively. We will continue to evaluate the impact of this guidance until it becomes effective.

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. REVENUES

We have the following revenue sources and revenue recognition policies. The table below presents our revenues disaggregated by revenue source for the three and nine months ended September 30, 2018 and 2017, respectively:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Property rentals	\$85,949	\$69,625	\$230,217	\$196,831
Tenant expense reimbursements	25,784	23,938	80,678	71,590
Management and development fees	375	369	1,064	1,199
Income from acquired leasehold interest	—	—	—	39,215
Other income	106	169	1,278	831
Total Revenue	\$112,214	\$94,101	\$313,237	\$309,666

Property Rentals

We generate revenue from minimum lease payments from tenant operating leases. These rents are recognized over the noncancelable terms of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases in accordance with ASC 840 Leases. We satisfy our performance obligations over time, under the noncancelable lease term, commencing when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. In addition, in circumstances where we provide a lease incentive to tenants, we recognize the incentive as a reduction of rental revenue on a straight-line basis over the remaining term of the lease. The underlying leased asset remains on our consolidated balance sheet and continues to depreciate.

Tenant expense reimbursements

In accordance with ASC 840, revenue arises from tenant leases, which provide for the recovery of all or a portion of the operating expenses, real estate taxes and capital improvements of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Income from acquired leasehold interest

Income from acquired leasehold interest was non-cash revenue generated in connection with the write-off of an unamortized intangible liability balance related to the below-market ground lease as well as the existing straight-line receivable balance, upon acquisition of the leasehold interest of the property. This revenue was recognized in accordance with ASC 840.

Other Income

Other income is generated in connection with certain services provided to tenants for which we earn a fee. This revenue is recognized as the services are transferred in accordance with ASC 606, with the exception of lease termination fee income, which is recognized in accordance with ASC 840.

Management and development fees

We generate management and development fee income from contractual property management agreements with third parties. This revenue is recognized as the services are transferred in accordance with ASC 606.

5. ACQUISITIONS AND DISPOSITIONS

During the nine months ended September 30, 2018, we closed the following acquisitions:

Date Purchased	Property Name	City	State	Square Feet	Purchase Price (in thousands)
January 26, 2018	938 Spring Valley Road	Maywood	NJ	2,000	\$ 719
February 23, 2018	116 Sunrise Highway	Freeport	NY	4,750	447
February 28, 2018	197 West Spring Valley Ave	Maywood	NJ	16,300	2,799
May 24, 2018	7 Francis Place	Montclair	NJ	3,000	966
				Total	\$ 4,931 ⁽¹⁾

(1) The total purchase price for the properties acquired in the nine months ended September 30, 2018 includes \$0.1 million of transaction costs incurred in relation to the transactions.

The properties purchased during the nine months ended September 30, 2018 are all adjacent to existing centers owned by the Company. Consideration for these purchases consisted of cash.

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

Property Name	Land	Buildings and improvements	Total Purchase Price
(in thousands)			
938 Spring Valley Road	\$519	\$ 200	\$ 719
116 Sunrise Highway	151	296	447
197 West Spring Valley Ave	1,768	1,031	2,799
7 Francis Place	381	585	966
Total	\$2,819	\$ 2,112	\$ 4,931

Dispositions

On April 26, 2018, we completed the sale of our property in Allentown, PA, which was previously classified as held for sale, for \$54.3 million, net of selling costs. As a result of this transaction, we recognized a \$50.4 million gain on sale of real estate during the nine months ended September 30, 2018.

On July 5, 2018, we completed the sale of land in Cherry Hill, NJ for \$3.3 million, net of selling costs, resulting in a gain of \$2.2 million.

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 \$72.8 million and \$148.7 million as of September 30, 2018, respectively, and \$87.2 million and \$181.0 million as of December 31, 2017, respectively.

Amortization of acquired below-market leases, net of acquired above-market leases resulted in additional rental income of \$19.3 million and \$29.8 million for the three and nine months ended September 30, 2018, respectively, and \$2.7 million and \$6.8 million for the same periods in 2017.

Amortization of acquired in-place leases and customer relationships resulted in additional depreciation and amortization expense of \$2.7 million and \$11.2 million for the three and nine months ended September 30, 2018, respectively, and \$2.9 million and \$6.0 million for the same periods in 2017.

Certain shopping centers are subject to ground leases or ground and building leases. Amortization of these acquired below-market leases resulted in additional rent expense of \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2018, respectively, and \$0.2 million and \$0.7 million for the same periods in 2017.

The following table sets forth the estimated annual amortization expense related to intangible assets and liabilities for the five succeeding years commencing January 1, 2019:

Year	Below-Market	Above-Market	Below-Market	
	Operating Lease Income	Operating Lease Expense	In-Place Leases	Ground Leases
2019	\$ 10,359	\$ 1,293	\$ 7,940	\$ 972
2020	10,239	1,016	6,684	972
2021	10,042	794	5,384	622
2022	9,736	433	4,090	590
2023	9,675	327	3,717	590

7. MORTGAGES PAYABLE

The following is a summary of mortgages payable as of September 30, 2018 and December 31, 2017.

(Amounts in thousands)	Maturity	Interest Rate at September 30, 2018	September 30, 2018	December 31, 2017
First mortgages secured by:				
Variable rate				
Plaza at Cherry Hill ⁽¹⁾	5/24/2022	3.70%	\$28,930	\$28,930
Westfield - One Lincoln Plaza ⁽¹⁾	5/24/2022	3.70%	4,730	4,730
Plaza at Woodbridge ⁽¹⁾	5/25/2022	3.70%	55,340	55,340
Hudson Commons ⁽²⁾	11/15/2024	4.00%	29,000	29,000
Watchung ⁽²⁾	11/15/2024	4.00%	27,000	27,000
Bronx (1750-1780 Gun Hill Road) ⁽²⁾	12/1/2024	4.00%	24,500	24,500
Total variable rate debt			169,500	169,500
Fixed rate				
Montehiedra Town Center, Senior Loan	7/6/2021	5.33%	85,250	86,236
Montehiedra Town Center, Junior Loan	7/6/2021	3.00%	30,000	30,000
Bergen Town Center	4/8/2023	3.56%	300,000	300,000
Shops at Bruckner	5/1/2023	3.90%	11,729	12,162
Hudson Mall ⁽⁵⁾	12/1/2023	5.07%	24,498	25,004
Yonkers Gateway Center ⁽⁶⁾	4/6/2024	4.16%	32,092	33,227
Las Catalinas	8/6/2024	4.43%	130,000	130,000
Brick	12/10/2024	3.87%	50,000	50,000
North Plainfield	12/10/2025	3.99%	25,100	25,100
Middletown	12/1/2026	3.78%	31,400	31,400
Rockaway	12/1/2026	3.78%	27,800	27,800
East Hanover (200 - 240 Route 10 West)	12/10/2026	4.03%	63,000	63,000
North Bergen (Tonnelles Ave) ⁽⁴⁾	4/1/2027	4.18%	100,000	100,000
Manchester Plaza	6/1/2027	4.32%	12,500	12,500
Millburn	6/1/2027	3.97%	24,000	24,000
Totowa	12/1/2027	4.33%	50,800	50,800
Woodbridge Commons	12/1/2027	4.36%	22,100	22,100
East Brunswick	12/6/2027	4.38%	63,000	63,000
East Rutherford	1/6/2028	4.49%	23,000	23,000
Hackensack	3/1/2028	4.36%	66,400	66,400
Marlton	12/1/2028	3.86%	37,400	37,400
East Hanover Warehouses	12/1/2028	4.09%	40,700	40,700
Union (2445 Springfield Ave)	12/10/2028	4.01%	45,600	45,600
Freeport Commons	12/10/2029	4.07%	43,100	43,100
Garfield	12/1/2030	4.14%	40,300	40,300
Mt Kisco -Target ⁽³⁾	11/15/2034	6.40%	14,106	14,451
Englewood ⁽⁷⁾	—	—%	—	11,537
Total fixed rate debt			1,393,875	1,408,817
		Total mortgages payable	1,563,375	1,578,317
		Unamortized debt issuance costs	(12,380)	(13,775)
Total mortgages payable, net of unamortized debt issuance costs			\$1,550,995	\$1,564,542

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

(2) Bears interest at one month LIBOR plus 190 bps.

The mortgage payable balance on the loan secured by Mount Kisco (Target) includes \$1.0 million of unamortized

(3) debt discount as of both September 30, 2018 and December 31, 2017, respectively. The effective interest rate including amortization of the debt discount is 7.29% as of September 30, 2018.

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 with a 10-year fixed rate mortgage, at 4.18%. As a result, we recognized a loss on extinguishment of debt of \$1.3 million during the nine months ended September 30, 2017, comprised of a \$1.1 million prepayment penalty and write-off of \$0.2 million of unamortized deferred financing fees on the original loan.

The mortgage payable balance on the loan secured by Hudson Mall includes \$1.3 million and \$1.5 million of unamortized debt premium as of September 30, 2018 and December 31, 2017, respectively. The effective interest rate including amortization of the debt premium is 3.88% as of September 30, 2018.

The mortgage payable balance on the loan secured by Yonkers Gateway Center includes \$0.7 million and \$0.8 million of unamortized debt premium as of both September 30, 2018 and December 31, 2017, respectively. The effective interest rate including amortization of the debt premium is 3.76% as of September 30, 2018.

On January 31, 2018, our property in Englewood, NJ was sold at a foreclosure sale and on February 23, 2018, the court order was received approving the sale and discharging the receiver of all assets and liabilities related to the property.

The net carrying amount of real estate collateralizing the above indebtedness amounted to approximately \$1.3 billion as of September 30, 2018. 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 September 30, 2018, we were in compliance with all debt covenants.

During 2017, our property in Englewood, NJ was transferred to a receiver. On January 31, 2018, our property in Englewood, NJ was sold at a foreclosure sale and on February 23, 2018, the court order was received approving the sale and discharging the receiver of all assets and liabilities related to the property. We recognized a gain on extinguishment of debt of \$2.5 million as a result of the forgiveness of outstanding mortgage debt of \$11.5 million, which is included in gain (loss) on extinguishment of debt in the consolidated statement of income for the nine months ended September 30, 2018.

As of September 30, 2018, the principal repayments for the next five years and thereafter are as follows:

(Amounts in thousands)

Year Ending December 31,	
2018 ⁽¹⁾	\$ 831
2019	4,244
2020	7,571
2021	123,604
2022	100,899
2023	344,426
Thereafter	981,800

⁽¹⁾ Remainder of 2018.

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 1.10% to 1.55% and an annual facility fee of 15 to 35 basis points. 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. Based on our current leverage ratio as of September 30, 2018, our borrowing rate is 1.15% and our facility fee is 0.20%. Financing fees associated with the Agreement of \$2.5 million and \$3.2 million as of September 30, 2018 and December 31, 2017,

respectively, are included in deferred financing fees, net 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.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. Effective January 1, 2018, for businesses, the Act reduces the corporate tax rate from a maximum of 35% to a flat 21% rate. Since UE has elected to qualify as a REIT under sections 856-860 of the Internal Revenue Code with intent to distribute 100% of its taxable income and did not have any activities in a Taxable REIT Subsidiary ("TRS") prior to January 1, 2018, there was no impact to the Company's financial statements.

On December 31, 2017, the Company elected, for tax purposes, to treat the wholly-owned limited partnership that held its Allentown property as a taxable REIT subsidiary ("TRS"). A TRS is a corporation, other than a REIT, in which we directly or indirectly hold stock, which has made a joint election with us to be treated as a TRS under Section 856(l) of the Code. A TRS is required to pay regular U.S. federal income tax, and state and local income tax where applicable, as a non-REIT "C" corporation. The Allentown legal entity restructuring resulted in a capital gain recognized for tax purposes in 2017 and a step up in tax basis to the Allentown property resulting in no capital gains recognized for tax purposes in 2018. The Company's consolidated financial statements for the three and nine months ended September 30, 2018 reflect the TRS' federal and state corporate income taxes associated with the operating activities at the TRS. The tax expense recorded in association with the operating activities of the TRS was \$0.2 million for the nine months ended September 30, 2018.

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 \$0.1 million and \$0.3 million for the quarters ended September 30, 2018 and 2017, respectively, and \$0.5 million and \$0.9 million for the nine months ended September 30, 2018 and 2017, respectively. 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 or Non-Recurring Basis

There were no financial assets or liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2018 and December 31, 2017.

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 September 30, 2018 and December 31, 2017.

(Amounts in thousands)	As of September 30, 2018		As of December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$449,307	\$449,307	\$490,279	\$490,279
Liabilities:				
Mortgages payable ⁽¹⁾	\$1,563,375	\$1,517,836	\$1,578,317	\$1,579,839

⁽¹⁾ Carrying amounts exclude unamortized debt issuance costs of \$12.4 million and \$13.8 million as of September 30, 2018 and December 31, 2017, respectively.

The following market spreads were used by the Company to estimate the fair value of mortgages payable:

	September 30, 2018	December 31, 2017
	Low	High
Mortgages payable	1.6%	1.9%
	1.7%	2.1%

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.

Redevelopment

As of September 30, 2018, we had approximately \$202.1 million of active development, redevelopment and anchor repositioning projects underway, of which \$73.7 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

The Company maintains (i) general liability insurance with limits of \$200 million for properties in the U.S. and Puerto Rico and (ii) all-risk property insurance with limits of \$500 million per occurrence and in the aggregate for properties in the U.S. and \$139 million for properties in Puerto Rico, subject to the terms, conditions, exclusions, deductibles and sub-limits when applicable for certain perils such as floods and earthquakes and (iii) numerous other insurance policies including trustees' and officers' insurance,

workers' compensation and automobile-related liabilities insurance. The Company's insurance includes coverage for acts of terrorism 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, the Company maintains coverage for certain cybersecurity losses with limits of \$5 million per occurrence and 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 typically charged directly to each of the retail properties and warehouses but not all of the cost of such premiums are recovered. The Company is responsible for deductibles, losses in excess of insurance coverage, and the portion of premiums not covered from retail properties, 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 and expect premiums across most property coverage lines to increase in light of recent events. The incurrence of uninsured losses, costs or uncovered premiums could materially and adversely affect our business, results of operations and financial condition.

Certain of our loans and other agreements contain customary covenants requiring the maintenance of 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 or other counterparties insist on greater coverage than we are able to obtain, such requirement could materially and adversely affect our ability to finance our properties and expand our portfolio.

Hurricane-Related Charges

On September 20, 2017, Hurricane Maria made landfall, damaging our two properties in Puerto Rico. During the third quarter of 2017, the Company recognized a \$2.2 million charge reflecting the net book value of assets damaged included in casualty and impairment loss (gain), net on the accompanying consolidated statements of income. During the nine months ended September 30, 2018, the Company received \$1.5 million in casualty insurance proceeds, which were partially offset by \$0.3 million of hurricane related costs, resulting in net casualty gains of \$1.2 million included in casualty and impairment loss (gain), net on the accompanying consolidated statements of income.

During the three and nine months ended September 30, 2018, the Company recognized a \$0.1 million net gain and \$0.4 million of business interruption losses, respectively. For the three months ended September 30, 2018, the net gain primarily comprised a reversal to provision for doubtful accounts for payments received from tenants on rents previously reserved. For the nine months ended September 30, 2018, the losses were comprised of \$0.8 million pertaining to rent abatements due to tenants that had not reopened since the hurricane, recorded as a reduction of property rentals and tenant expense reimbursements, offset by a \$0.4 million reversal to provision for doubtful accounts for payments received from tenants on rents previously reserved.

No determination has been made as to the total amount or timing of insurance payments that may be received as a result of the hurricane.

Environmental Matters

Each of our properties has been subjected to varying degrees of environmental assessment at various times. Based on these assessments, we have accrued costs of \$1.7 million and \$1.2 million on our consolidated balance sheets as of September 30, 2018 and December 31, 2017, respectively, for remediation costs for environmental contamination at certain properties. While this accrual reflects our best estimates of the potential costs of remediation at these properties, there can be no assurance that the actual costs will not exceed these amounts. During the nine months ended September 30, 2018, the Company recognized \$0.6 million of environmental remediation costs within property operating expenses on the consolidated statements of income. Although we are not aware of any other material environmental contamination, 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.

Bankruptcies

Although our base rent is supported by long-term leases, leases may be rejected in a bankruptcy proceeding and the related tenant stores may permanently vacate prior to lease expiration. In the event a tenant with a significant number of leases in our shopping centers files for bankruptcy and rejects its leases with us, we could experience a reduction in our revenues. We monitor the operating performance and rent collections of all tenants in our shopping centers, especially those tenants in arrears or operating retail formats that are experiencing significant changes in competition, business practice, or store closings in other locations

During September 2017, Toys “R” Us Inc. (“Toys “R” Us”) filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code and announced an orderly wind-down of its U.S. business and liquidation of all U.S. stores on March 15, 2018.

20

Prior to the liquidation, the Company had leases with Toys “R” Us at nine locations with annual gross rents of \$7.6 million, including tenant reimbursement income. The status of the Toys “R” Us leases is as follows:

The Company paid \$15.5 million to recapture the leases at Hudson Mall in Jersey City, NJ in July 2018 and Bruckner Commons in the Bronx, NY in September 2018 to accelerate the redevelopment of these properties. The previous rents were well under-market.

Raymour & Flanigan acquired the lease at Manalapan Commons in Manalapan, NJ in July 2018.

Toys rejected its leases in Woodbridge, NJ, Union, NJ, Amherst, NY and Wilkes-Barre, PA in July 2018 and Cherry Hill, NJ and Salem, NH in October 2018. Annual gross rent on these leases amounted to approximately \$5.7 million. The Company is in active discussions to lease these spaces.

In connection with the Toys “R” Us bankruptcy, the Company recognized a write-off of \$21.6 million of below-market intangible liabilities (classified within property rental revenues), \$15.5 million of lease termination payments (classified within property operating expense) and a \$1.0 million write-off of receivables from straight-line rents and reserves recorded on straight-line rents in the nine months ended September 30, 2018.

11. PREPAID EXPENSES AND OTHER ASSETS

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

(Amounts in thousands)	Balance at	
	September 30, 2018	December 31, 2017
Other assets	\$2,806	\$ 3,771
Real estate held for sale	—	3,285
Deposits for acquisitions	—	406
Prepaid expenses:		
Real estate taxes	7,358	7,094
Insurance	4,266	2,793
Rent, licenses/fees	1,764	1,210
Total Prepaid expenses and other assets	\$16,194	\$ 18,559

12. OTHER LIABILITIES

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

(Amounts in thousands)	Balance at	
	September 30, 2018	December 31, 2017
Deferred ground rent expense	\$6,568	\$ 6,499
Deferred tax liability, net	3,145	2,828
Deferred tenant revenue	4,235	4,183
Environmental remediation costs	1,721	1,232
Other liabilities	1,987	429
Total Other liabilities	\$17,656	\$ 15,171

13. INTEREST AND DEBT EXPENSE

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

Edgar Filing: Urban Edge Properties - Form 10-Q

	Three Months		Nine Months	
	Ended September		Ended September	
(Amounts in thousands)	30,	30,	30,	30,
	2018	2017	2018	2017
Interest expense	\$16,036	\$13,913	\$45,900	\$39,204
Amortization of deferred financing costs	720	724	2,159	2,175
Total Interest and debt expense	\$16,756	\$14,637	\$48,059	\$41,379

21

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 September 30, 2018, \$241.3 million of common shares remained available for issuance under this ATM equity program and there were no common shares issued under the ATM equity program during the three and nine months ended September 30, 2018 and 2017, respectively. 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.

Dividends and Distributions

During each of the three months ended September 30, 2018 and 2017, the Company declared dividends on our common shares and OP unit distributions of \$0.22 per share/unit. During the nine months ended September 30, 2018 and 2017, the Company declared common stock dividends and OP unit distributions of \$0.66 per share/unit in the aggregate.

Noncontrolling Interests in Operating Partnership

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 from Vornado Realty L.P. (“VRLP”), the Company issued 5.7 million OP units, which represented a 5.4% interest in the Operating Partnership, to VRLP in exchange for interests in VRLP properties contributed by VRLP. As of September 30, 2018, VRLP held an interest of 4.5% in the Operating Partnership. LTIP unit awards were granted to certain executives pursuant to our 2015 Omnibus Share Plan (the “Omnibus Share Plan”) and our 2018 Inducement Equity Plan (the “Inducement Plan”). OP units were issued to contributors in exchange for their property interests in connection with the Company’s property acquisitions in 2017. The total of the OP units and LTIP units represent a 10.0% and 10.1% weighted-average interest in the Operating Partnership for the three and nine months ended September 30, 2018, 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 in Consolidated Subsidiaries

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

2018 Long-Term Incentive Plan

On February 22, 2018, the Compensation Committee of the Board of Trustees of the Company approved the Company’s 2018 Long-Term Incentive Plan (“2018 LTI Plan”) under the Omnibus Share Plan, a multi-year equity compensation program, comprised of both performance-based and time-based vesting awards. Equity awards granted under the 2018 LTI Plan are weighted, in terms of grant date and fair value, 80% performance-based and 20% time-based.

For the performance-based awards under the 2018 LTI Plan, participants have the opportunity to earn awards in the form of LTIP Units if, and only if, Urban Edge’s absolute and relative total shareholder return (“TSR”) meets certain criteria over the three-year performance measurement period (the “Performance Period”) beginning on February 22, 2018 and ending on February 21, 2021. The Company issued 328,107 LTIP Units under the 2018 LTI Plan.

Under the Absolute TSR component (25% of the performance-based awards), 40% of the LTIP Units will be earned if the Company's TSR over the Performance Period is equal to 18%, 100% of the LTIP Units will be earned if the Company's TSR over the Performance Period is equal to 27%, and 165% of the LTIP Units will be earned if the Company's TSR over the Performance Period is equal to or greater than 36%. The Relative TSR component is based on the Company's performance compared to a peer group comprised of 14 companies. Under the Relative TSR Component (75% of the performance-based awards), 40% of the LTIP Units will be earned if the Company's TSR over the Performance Period is equal to the 35th percentile of the peer group, 100% of the LTIP Units will be earned if the Company's TSR over the Performance Period is equal to the 5th percentile of the peer group, and 165% of the LTIP Units will be earned if the Company's TSR over the Performance Period is equal to or above the 7th percentile of the peer group, with earning determined using linear interpolation if between such relative TSR thresholds.

The fair value of the performance-based award portion of the 2018 LTI Plan on the date of grant was \$3.6 million using a Monte Carlo simulation to estimate the fair value through a risk-neutral premise. The time-based awards under the 2018 LTI Plan, also granted in the form of LTIP Units, vest ratably over three years except in the case of our Chairman and Chief Executive Officer, where the vesting is ratably over four years. The Company granted time-based awards under the 2018 LTI Plan that represent 33,172 LTIP units with a grant date fair value of \$0.7 million.

Deferred Share Units Granted to Trustees

The Company has authorized Trustee Deferred Share Unit Agreements (“DSU Agreements”) under the Omnibus Share Plan, in connection with the services of the trustees to the Company. Each deferred share unit (“DSU”) is equivalent to one common share of the Company. All DSUs shall vest in full on the agreed upon vesting date, provided the trustee remains in service as a member of the Board of Trustees of the Company on such date. If the service of the trustee to the Company or its affiliates terminates for any reason prior to the vesting date, any DSUs that have not vested as of such date shall automatically and without notice terminate and be forfeited. Once vested, the common shares underlying the DSUs are granted to the trustees on predetermined dates or upon their departure as trustees.

During the nine months ended September 30, 2018, trustees elected to receive a portion of their compensation in deferred share units and an aggregate of 13,656 shares were credited to those trustees based on the weighted average grant date fair value of \$19.33. During the three and nine months ended September 30, 2018, the Company incurred expenses of \$0.1 million related to deferred share units granted to trustees.

2018 Inducement Equity Plan

The Inducement Plan was approved by the Compensation Committee of the Board of Trustees of the Company on September 26, 2018. Under the Inducement Plan, the Compensation Committee of the Board of Trustees may grant, subject to any Company performance conditions as specified by the Compensation Committee, awards to individuals who were not previously employees as an inducement material to the individual’s entry into employment with the Company. The terms and conditions of the Inducement Plan and any awards thereunder granted are substantially similar to those under the 2015 Omnibus Share Plan. As of September 30, 2018, the Company had granted an aggregate of 352,890 restricted LTIP Units under the Inducement Plan with a grant date fair value of \$7.2 million, which were granted in connection with inducing the Company’s new Chief Operating Officer and new President of Development to join the Company.

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 September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2018	2017	2018	2017
Share-based compensation expense components:				
Restricted share expense	\$525	\$527	\$1,726	\$1,435
Stock option expense	546	650	1,650	