

Edgar Filing: Urban Edge Properties - Form 10-Q

Urban Edge Properties
Form 10-Q
May 01, 2019

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

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

For the quarterly period ended March 31, 2019

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

Title of class of registered securities	Trading symbol	Name of exchange on which registered
Common shares of beneficial interest, par value \$0.01 per share	UE	The New York Stock Exchange

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 <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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Company

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

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

Urban Edge Properties YES NO Urban Edge Properties LP YES NO

As of April 26, 2019, Urban Edge Properties had 120,405,524 common shares outstanding.

URBAN EDGE PROPERTIES AND URBAN EDGE PROPERTIES LP
 QUARTERLY REPORT ON FORM 10-Q
 QUARTER ENDED MARCH 31, 2019

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2019 of Urban Edge Properties and Urban Edge Properties LP. Unless stated otherwise or the context otherwise requires, references to “UE” and “Urban Edge” mean Urban Edge Properties, a Maryland real estate investment trust (“REIT”), and references to “UERP” and the “Operating Partnership” mean Urban Edge Properties LP, a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively UE, UERP and those entities/subsidiaries consolidated by UE. UERP is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. UE is the sole general partner and also a limited partner of UERP. As the sole general partner of UERP, UE has exclusive control of UERP’s day-to-day management.

As of March 31, 2019, UE owned an approximate 94.4% ownership interest in UERP. The remaining approximate 5.6% interest is owned by limited partners. The other limited partners of UERP are 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 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 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 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)

	March 31, 2019	December 31, 2018
ASSETS		
Real estate, at cost:		
Land	\$525,027	\$525,819
Buildings and improvements	2,174,923	2,156,113
Construction in progress	73,649	80,385
Furniture, fixtures and equipment	6,790	6,675
Total	2,780,389	2,768,992
Accumulated depreciation and amortization	(661,435)	(645,872)
Real estate, net	2,118,954	2,123,120
Right-of-use assets	96,466	—
Cash and cash equivalents	416,668	440,430
Restricted cash	32,120	17,092
Tenant and other receivables, net of allowance for doubtful accounts of \$6,486 as of December 31, 2018	39,002	28,563
Receivable arising from the straight-lining of rents, net of \$134 as of December 31, 2018	80,848	84,903
Identified intangible assets, net of accumulated amortization of \$29,582 and \$39,526, respectively	53,994	68,422
Deferred leasing costs, net of accumulated amortization of \$17,236 and \$16,826, respectively	21,558	21,277
Deferred financing costs, net of accumulated amortization of \$3,020 and \$2,764, respectively	1,963	2,219
Prepaid expenses and other assets	12,854	12,968
Total assets	\$2,874,427	\$2,798,994
LIABILITIES AND EQUITY		
Liabilities:		
Mortgages payable, net	\$1,549,479	\$1,550,242
Lease liabilities	91,906	—
Accounts payable, accrued expenses and other liabilities	85,424	98,517
Identified intangible liabilities, net of accumulated amortization of \$67,223 and \$65,058, respectively	141,526	144,258
Total liabilities	1,868,335	1,793,017
Commitments and contingencies		
Shareholders' equity:		
Common shares: \$0.01 par value; 500,000,000 shares authorized and 120,099,294 and 114,345,565 shares issued and outstanding, respectively	1,201	1,143
Additional paid-in capital	1,005,129	956,420
Accumulated deficit	(56,663)	(52,857)
Noncontrolling interests:		

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Operating partnership	55,976	100,822
Consolidated subsidiaries	449	449
Total equity	1,006,092	1,005,977
Total liabilities and equity	\$2,874,427	\$2,798,994

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2019	2018
REVENUE		
Rental revenue	\$97,308	\$98,394
Management and development fees	352	342
Other income	72	317
Total revenue	97,732	99,053
EXPENSES		
Depreciation and amortization	21,830	21,270
Real estate taxes	15,477	15,775
Property operating	17,061	17,903
General and administrative	10,580	7,641
Casualty and impairment loss (gain), net	3,958	(1,341)
Lease expense	3,655	2,736
Total expenses	72,561	63,984
Gain on sale of real estate	16,953	—
Interest income	2,506	1,524
Interest and debt expense	(16,536)	(15,644)
Gain on extinguishment of debt	—	2,524
Income before income taxes	28,094	23,473
Income tax expense	(202)	(434)
Net income	27,892	23,039
Less net income attributable to noncontrolling interests in:		
Operating partnership	(2,355)	(2,328)
Consolidated subsidiaries	—	(11)
Net income attributable to common shareholders	\$25,537	\$20,700
Earnings per common share - Basic:	\$0.22	\$0.18
Earnings per common share - Diluted:	\$0.22	\$0.18
Weighted average shares outstanding - Basic	116,274	113,677
Weighted average shares outstanding - Diluted	126,504	113,864

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	—	—	—	20,700	—	—	20,700
Net income attributable to noncontrolling interests	—	—	—	—	2,328	11	2,339
Limited partnership interests:							
Units redeemed for common shares	10,000	—	79	—	—	—	79
Reallocation of noncontrolling interests	—	—	484	—	(563)	—	(79)
Common shares issued	102,353	1	40	(65)	—	—	(24)
Dividends on common shares (\$0.22 per share)	—	—	—	(24,997)	—	—	(24,997)
Distributions to redeemable NCI (\$0.22 per unit)	—	—	—	—	(2,786)	—	(2,786)
Share-based compensation expense	—	—	1,173	8	839	—	2,020
Share-based awards retained for taxes	(16,158)	—	(363)	—	—	—	(363)
Balance, March 31, 2018	113,923,724	\$ 1,139	\$ 947,815	\$ (61,975)	\$ 100,036	\$ 415	\$ 987,430

	Common Shares			Accumulated Earnings (Deficit)	Noncontrolling Interests ("NCI")		Total Equity
	Shares	Amount	Additional Paid-In Capital		Operating Partnership	Consolidated Subsidiaries	
Balance, December 31, 2018	114,345,565	\$ 1,143	\$ 956,420	\$ (52,857)	\$ 100,822	\$ 449	\$ 1,005,977
Net income attributable to common shareholders	—	—	—	25,537	—	—	25,537
Net income attributable to noncontrolling interests	—	—	—	—	2,355	—	2,355
Impact of ASC 842 adoption	—	—	—	(2,918)	—	—	(2,918)
Limited partnership interests:							
Units redeemed for common shares	5,762,184	57	46,090	—	—	—	46,147
Reallocation of noncontrolling interests	—	—	1,250	—	(47,397)	—	(46,147)
Common shares issued	20,657	1	69	(35)	—	—	35
Dividends to common shareholders (\$0.22 per share)	—	—	—	(26,390)	—	—	(26,390)
	—	—	—	—	(1,576)	—	(1,576)

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Distributions to redeemable NCI (\$0.22 per unit)							
Share-based compensation expense	—	—	1,892	—	1,772	—	3,664
Share-based awards retained for taxes	(29,112)	—	(592)	—	—	—	(592)
Balance, March 31, 2019	120,099,294	\$ 1,201	\$ 1,005,129	\$ (56,663)	\$ 55,976	\$ 449	\$ 1,006,092

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$27,892	\$23,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,747	21,430
Casualty and impairment loss	3,958	—
Gain on sale of real estate	(16,953)	—
Gain on extinguishment of debt	—	(2,524)
Amortization of deferred financing costs	720	722
Amortization of below market leases, net	(2,360)	(2,633)
Amortization of right-of-use assets	2,014	—
Straight-lining of rent	(22)	66
Share-based compensation expense	3,664	2,020
Provision for doubtful accounts	—	1,236
Change in operating assets and liabilities:		
Tenant and other receivables	(10,379)	(5,320)
Deferred leasing costs	(1,201)	(938)
Prepaid and other assets	93	1,295
Accounts payable, accrued expenses and other liabilities	254	(4,392)
Net cash provided by operating activities	29,427	34,001
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate development and capital improvements	(26,696)	(29,272)
Acquisition of real estate	—	(3,965)
Proceeds from sale of operating properties	18,202	—
Insurance proceeds	—	1,000
Net cash used in investing activities	(8,494)	(32,237)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(1,144)	(844)
Dividends to common shareholders	(26,390)	(24,997)
Distributions to redeemable noncontrolling interests	(1,576)	(2,786)
Taxes withheld for vested restricted shares	(592)	(363)
Proceeds (payments) related to the issuance of common shares	35	(24)
Net cash used in financing activities	(29,667)	(29,014)
Net decrease in cash and cash equivalents and restricted cash	(8,734)	(27,250)
Cash and cash equivalents and restricted cash at beginning of period	457,522	500,841
Cash and cash equivalents and restricted cash at end of period	\$448,788	\$473,591

See notes to consolidated financial statements (unaudited).

	Three Months Ended March 31,	
	2019	2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payment for interest net of amounts capitalized of \$565 and \$1,154, respectively	\$ 16,122	\$ 17,253
Cash payments for income taxes	7	618
Cash payments for lease liabilities	2,740	—
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures included in accounts payable and accrued expenses	15,559	23,074
Write-off of fully depreciated assets	7,106	689
Operating lease liabilities arising from obtaining right-of-use assets	93,613	—
Mortgage debt forgiven in foreclosure	—	11,537
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents at beginning of period	\$440,430	\$490,279
Restricted cash at beginning of period	17,092	10,562
Cash and cash equivalents and restricted cash at beginning of period	\$457,522	\$500,841
Cash and cash equivalents at end of period	\$416,668	\$462,774
Restricted cash at end of period	32,120	10,817
Cash and cash equivalents and restricted cash at end of period	\$448,788	\$473,591

See notes to consolidated financial statements (unaudited).

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