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Urban Edge Properties  
Form 10-K

March 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2014

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

(Exact name of Registrant as specified in its charter)

Maryland

47-6311266

(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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Shares, \$.01 par value per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

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. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting

Company

(Do not check if smaller reporting  
company)

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

YES  NO

The registrant was a wholly-owned subsidiary of another Company prior to January 15, 2015. Accordingly, there was no public market for the registrant's common stock as of June 30, 2014, the last day of the registrant's most recently completed second quarter.

As of March 23, 2015, there were 104,964,990 of the registrant's common shares of beneficial interest outstanding.

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URBAN EDGE PROPERTIES  
ANNUAL REPORT ON FORM 10-K  
YEAR ENDED DECEMBER 31, 2014

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## FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute forward looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as “approximates,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “would,” “may” or other similar expressions in this Annual Report on Form 10-K. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see “Item 1A. Risk Factors” in this Annual Report on Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K.

## PART I

### ITEM 1. BUSINESS

#### The Company

Urban Edge Properties (“UE” or the “Company”) (NYSE: UE) is a Maryland real estate investment trust that owns and operates retail real estate in high barrier-to-entry markets. Urban Edge Properties LP (“UELP”) 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. UE and UELP were created to own the majority of Vornado Realty Trust’s (“Vornado”) (NYSE: VNO) former shopping center business. UE comprises 79 shopping centers, three malls and a warehouse park adjacent to one of the centers (“UE Businesses”) and aggregates to 14.8 million square feet. The combined occupancy of shopping centers and malls was 95.8% as of December 31, 2014.

Prior to its separation from Vornado, UE was a wholly owned subsidiary of Vornado. On January 15, 2015, pursuant to a separation and distribution agreement between UE and Vornado (the “Separation Agreement”), the interests in certain properties held by Vornado’s operating partnership, Vornado Realty L.P. (“VRLP”), were contributed or otherwise transferred to UE in exchange for 100% of our outstanding common shares. Following that contribution, VRLP distributed 100% of our outstanding common shares to Vornado and the other common limited partners of VRLP, pro rata with respect to their ownership of common limited partnership units in VRLP. Vornado then distributed all of the UE common shares it had received from VRLP to Vornado common shareholders on a pro rata basis. As a result, VRLP common limited partners and Vornado common shareholders all received common shares of UE in the spin-off at a ratio of one common share of UE to every two common shares of Vornado.

Substantially concurrently with such distribution, the interests in certain properties held by VRLP, including interests in entities holding properties, were contributed or otherwise transferred to UELP in exchange for approximately 5.4% of UELP’s outstanding common limited partnership interests.

As part of the separation transaction, Vornado capitalized UE with \$225 million of cash and agreed to provide transition services including human resources, information technology, risk management, public reporting and tax services for up to two years pursuant to a transition services agreement between UE and Vornado (the “Transition Services Agreement”). The fees charged to us by Vornado for these transition services approximate the actual cost incurred by Vornado in providing such transition services to us. UE will provide leasing, property management and development services to Vornado for certain of Vornado’s shopping center properties.

We review operating and financial information for each property on an individual basis and therefore, each property represents an individual operating segment. 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 operational process.

Unless the context otherwise requires, “we”, “us” and “our” refer to UE after giving effect to the transfer of assets and liabilities from Vornado as well as to the UE Businesses prior to the date of completion of the separation.

We plan to elect to be treated as a real estate investment trust (“REIT”) in connection with the filing of our federal income tax return, subject to our ability to meet the requirements of becoming a REIT at the time of election, and we intend to maintain this status in future periods.

#### Company Strategies

Our goal is to become the leading owner of retail real estate in and on the edges of major urban markets. We believe that urban markets, including first-ring suburbs, offer especially attractive investment opportunities resulting from a unique interplay of demographic, supply/demand and redevelopment/development trends. To achieve this goal, our primary strategies include:

Maximizing the value of existing properties through proactive management. We intend to maximize the value of each of our assets through a comprehensive, proactive management strategy encompassing: continuous asset evaluation for highest-and-best-use; efficient and cost-conscious day-to-day operations that minimize retailer operating expense and preserve property quality; and thoughtful leasing. Leasing is a critical function and includes many value-creating

elements including the following:

- Monitoring retailer sales, merchandising, store operations, timeliness of payments, overall financial condition and related factors;

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- Being constantly aware of each asset's competitive positioning within its trade area and moving as quickly as possible to make physical improvements or to adjust merchandising if circumstances warrant;
- Continuously canvassing trade areas to identify unique operators that can distinguish a property and enhance its offerings;
- Maintaining regular contact with the brokerage community to stay abreast of new merchants, potential relocations, new supply and overall trade area dynamics;
- Conducting semi-annual portfolio reviews with key tenants;
- Building and nurturing broad and deep relationships with retailer decision-makers;
- Focusing on spaces with below-market leases that might be recaptured;
- Understanding the potential impacts of options, exclusives, co-tenancy and other restrictive lease provisions; and
- Optimizing required capital investment in every transaction.

Actively investing. We intend to invest in redevelopment, development and acquisitions. Each investment must meet our standards for expected risk-adjusted return and overall quality compared to our existing portfolio.

Investment considerations include:

• **Geography:** Primary focus on the New York metropolitan area and the DC to Boston corridor.

• **Product:** Larger shopping centers with multiple anchors (including a grocer where possible) that have a value-add thesis and quality street retail leased to necessity- and convenience-oriented retailers.

- **Tenancy:** Tenant mix, sales performance and related occupancy cost, lease term, lease provisions and other factors. Our current tenant base comprises a diverse group of merchants, including department stores, grocers, category killers, discounters, entertainment offerings, health clubs, DIY stores, in-line specialty shops, restaurants and other food and beverage vendors and service providers. We believe that this diversification provides stability to our cash flows as no specific retail category constitutes more than 20% of our portfolio's annual base rental revenue and no one retailer contributed more than 7% of our annual base rental revenue in 2014.

• **Rent:** Existing rents relative to market rents.

• **Competition and Barriers-to-Entry:** Underserved, high barrier-to-entry markets in densely populated, affluent trade areas. We believe that shopping centers located in such markets present a more attractive risk-return profile relative to other markets. We intend to invest in our existing core markets, and, over time, may expand into new markets that have similar characteristics.

• **Access and Visibility:** Convenient access and good visibility.

• **Physical Condition:** Good physical condition, taking into account aesthetic, functional, structural and environmental considerations.

Constantly evaluating our portfolio and, where appropriate, engaging in selective dispositions. We intend to regularly evaluate the future prospects for each shopping center and, where appropriate, to dispose of those properties that will not meet our investment criteria in the long-term. We intend to reinvest a large part of the proceeds from any dispositions to invest in redevelopment, development, acquisitions or debt pay-down.

Using capital discipline to maintain a flexible balance sheet and support growth. We intend to keep our balance sheet flexible and capable of supporting growth. Over time, we intend to pursue an investment grade credit rating. We also expect internally generated funds and funds from selective asset sales will also be available to support growth.

#### Seasonality

Our revenues and expenses are, to some extent, subject to seasonality which impacts quarterly net earnings, cash flows and funds from operations and, therefore, impacts comparisons of the current quarter to the previous quarter. Revenue in the fourth quarter is typically higher due to the recognition of percentage rent and to higher specialty retail

income around the holidays.

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### Significant Tenants

None of our tenants accounted for more than 10% of total revenues in any of the years ended December 31, 2014, 2013 and 2012. As of December 31, 2014, The Home Depot was our largest tenant and accounted for approximately \$18.0 million, or 5.7%, of our total revenue.

### Employees

As of March 23, 2015, we had 113 employees.

### Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as Reports on Forms 3, 4 and 5 regarding officers, trustees or 10% beneficial owners of us, filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934 are available free of charge through our website ([www.uedge.com](http://www.uedge.com)) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. Also available on our website are copies of our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines. In the event of any changes to these charters or the code or guidelines, changed copies will also be made available on our website. Copies of these documents are also available directly from us free of charge. Our website also includes other financial information, including certain non-GAAP financial measures, none of which is a part of this Annual Report on Form 10-K. Copies of our filings under the Securities Exchange Act of 1934 are also available free of charge from us, upon request.

## ITEM 1A. RISK FACTORS

You should carefully consider the following risks and other information in this information statement in evaluating our company and our common shares. Any of the following risks could materially and adversely affect our business, results of operations and financial condition. These risks have been separated into three groups: Risks Related to Our Business and Operations and to Our Status as a REIT, Risks Related to the Separation and Risks Related to Our Common Shares.

### RISKS RELATED TO OUR BUSINESS AND OPERATIONS AND TO OUR STATUS AS A REIT

Material factors that may adversely affect our business and operations are summarized below. The risks and uncertainties described herein may not be the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. See “Forward-Looking Statements” contained herein.

#### The Value of and Income from Real Estate Investments Fluctuate Due to Various Factors.

The value of and income from real estate fluctuates depending on conditions in the general economy and the real estate business. These conditions may also adversely impact our revenues and cash flows.

The factors that affect the value of our real estate include, among other things:

- national, regional and local economic conditions;
- competition from other available space;
- local conditions such as an oversupply of space or a reduction in demand for real estate in the area;
- how well we manage our properties;
- changes in market rental rates;
- the timing and costs associated with property improvements and rentals;
- whether we are able to pass all or portions of any increases in operating costs through to tenants;
- changes in real estate taxes and other expenses;
- whether tenants and users such as customers and shoppers consider a property attractive;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- availability of financing on acceptable terms or at all;
- inflation or deflation;
- fluctuations in interest rates;
- our ability to obtain adequate insurance;
- changes in zoning laws and taxation;
- government regulation;
- consequences of any armed conflict involving, or terrorist attack against, the United States or individual acts of violence in public spaces, including retail centers;
- potential liability under environmental or other laws or regulations;
- natural disasters;
- general competitive factors; and
- climate changes.

The rents we receive and the occupancy levels at our properties may decline as a result of adverse changes in any of these factors. If our rental revenues and/or occupancy levels decline, we generally would expect to have less cash available to pay our indebtedness and for distribution to our shareholders. In addition, some of our major expenses, including mortgage payments, real estate taxes and maintenance costs, generally do not decline when the related rents

decline.

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Capital markets and economic conditions can materially affect our liquidity, financial condition, results of operations and the value of our debt and equity securities.

There are many factors that can affect the value of our equity securities and any debt securities we may issue in the future, including the state of the capital markets and the economy. Demand for retail space may decline nationwide, as it did in 2008 and 2009, due to the economic downturn, bankruptcies, downsizing, layoffs and cost cutting. Government action or inaction may adversely affect the state of the capital markets. The cost and availability of credit may be adversely affected by illiquid credit markets and wider credit spreads may adversely affect our liquidity and financial condition, including our results of operations, and the liquidity and financial condition of our tenants. Our inability or the inability of our tenants to timely refinance maturing liabilities and access the capital markets to meet liquidity needs may materially affect our financial condition and results of operations and the value of our equity securities and any debt securities we may issue in the future.

We are subject to risks that affect the general retail environment.

Our properties are in the retail shopping center real estate market. This fact means that we are subject to factors that affect the retail environment generally, including the level of consumer spending and consumer confidence, unemployment rates, the threat of terrorism and increasing competition from discount retailers, outlet malls, retail websites and catalog companies. These factors could adversely affect the financial condition of our retail tenants and the willingness of retailers to lease space in our shopping centers.

Real estate is a competitive business.

We compete with a large number of property owners and developers, some of which may be willing to accept lower returns on their investments than we are. Principal competitive factors include rents charged, attractiveness of location, the quality of the property and breadth and quality of services provided. Our success depends upon, among other factors, trends affecting national and local economies, the financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

We depend on leasing space to tenants on economically favorable terms and on collecting rent from tenants who may not be able to pay.

Our financial results depend significantly on leasing space in our properties to tenants on economically favorable terms. In addition, because a majority of our income is derived from renting real property, our income, funds available to pay indebtedness and funds available for distribution to shareholders will decrease if certain of our tenants cannot pay their rent or if we are not able to maintain our occupancy levels on favorable terms. If a tenant does not pay its rent, we might not be able to enforce our rights as landlord without delays and might incur substantial legal and other costs. During periods of economic adversity, there may be an increase in the number of tenants that cannot pay their rent and an increase in vacancy rates.

Bankruptcy or insolvency of tenants may decrease our revenues, net income and available cash.

From time to time, some of our tenants have declared bankruptcy and other tenants may declare bankruptcy or become insolvent in the future. In the case of our shopping centers, the bankruptcy or insolvency of a major tenant could cause us to have difficulty leasing the remainder of the affected property. Our leases generally do not contain restrictions designed to ensure the creditworthiness of our tenants. As a result, the bankruptcy or insolvency of a major tenant could result in a lower level of net income and funds available to pay our indebtedness or make distributions to shareholders.

We derive a significant portion of our revenues from four of our properties.

As of December 31, 2014, four of our properties in the aggregate generated in excess of 25% of our total gross annual base minimum rental revenues. The occurrence of events that have a negative impact on one or more of these properties, such as an economic downturn affecting the surrounding area or a natural disaster that damages one or more of the properties, would have a much larger adverse effect on our revenues than a corresponding occurrence affecting less significant properties. If the revenues generated by one or more of these properties were to decline substantially, our financial condition could be negatively and materially impacted.

Some of our properties depend on our anchor or major tenants and decisions made by these tenants, or adverse developments in the businesses of these tenants, could have a negative impact on us.

Some of our properties have anchor or major tenants that generally occupy larger spaces, sometimes pay a significant portion of a property's total rent and often contribute to the success of other tenants by drawing customers to a property. If an anchor or major tenant closes, such closure could adversely affect the property even if the tenant continues to pay rent due to the loss of the anchor or major tenant's drawing power. Additionally, closure of an anchor or major tenant could result in lease terminations by, or reductions in rent from, other tenants if the other tenants' leases have co-tenancy clauses that permit cancellation or rent reduction if an anchor tenant closes. Retailer consolidation, store rationalization, competition from internet sales and general economic conditions may decrease the number of tenants available to fill available anchor tenant spaces. As a result, in the event one or more anchor tenants were to leave one or more of our centers, we cannot be sure that we would be able to quickly re-lease the vacant space on equivalent terms or at all. In addition, we may not be able to recover costs owed us by the closed tenant. In certain cases, co-tenancy issues can arise solely from the loss of one or more non-anchor tenants, and in other cases, some anchor and non-anchor tenants may be able to terminate their leases if they do not achieve defined sales levels. Any of these developments could have a negative impact on our financial condition and results of operations.

We may be unable to reposition or redevelop some of our properties, which may have an adverse impact on our financial performance.

Our business strategy includes redeveloping our properties. In connection therewith, we are subject to various risks, including:

- we may not have sufficient capital to proceed with planned repositioning or redevelopment activities; redevelopment costs for a project may exceed original estimates or available financing, possibly making the project infeasible or unprofitable;
- we may not be able to obtain zoning or other required governmental permits and authorizations; and
- we may not be able to obtain anchor store and mortgage lender approvals, if applicable, for repositioning or redevelopment activities.

There can be no assurance that our redevelopment projects will have the desired results of attracting and retaining desirable tenants and increasing customer traffic. If redevelopment projects are unsuccessful, our investments in those projects may not be fully recoverable from future operations or sales.

We face risks associated with our tenants being designated "Prohibited Persons" by the Office of Foreign Assets Control.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") maintains a list of persons designated as terrorists or who are otherwise blocked or banned ("Prohibited Persons") from conducting business or engaging in transactions in the United States. Our leases, loans and other agreements may require us to comply with OFAC requirements. If a tenant or other party with whom we conduct business is placed on the OFAC list we may be required to terminate the lease or other agreement. Any such termination could result in a loss of revenue or otherwise negatively affect our financial results and cash flows.

Our business and operations would suffer in the event of system failures.

Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our information technology infrastructure systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a

material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions.

The occurrence of cyber incidents or a deficiency in our cybersecurity could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity, or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. The primary risks that could directly result

from the occurrence of a cyber incident are operational interruption, damage to our relationship with our tenants and private data exposure. In accordance