

EASTGROUP PROPERTIES INC
Form 10-Q
July 25, 2011

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 QUARTER ENDED JUNE 30, 2011

COMMISSION FILE NUMBER 1-07094

EASTGROUP PROPERTIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND
(State or other jurisdiction
of incorporation or organization)

13-2711135
(I.R.S. Employer
Identification No.)

190 EAST CAPITOL STREET
SUITE 400
JACKSON, MISSISSIPPI
(Address of principal executive offices)

39201
(Zip code)

Registrant's telephone number: (601)
354-3555

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 (x) NO ()

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

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

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Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The number of shares of common stock, \$.0001 par value, outstanding as of July 22, 2011 was 27,062,453.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES

FORM 10-Q

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EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Real estate properties	\$ 1,460,027	1,447,455
Development	82,518	73,722
	1,542,545	1,521,177
Less accumulated depreciation	(427,290)	(403,187)
	1,115,255	1,117,990
Unconsolidated investment	2,743	2,740
Cash	100	137
Other assets	61,599	62,409
TOTAL ASSETS	\$ 1,179,697	1,183,276
LIABILITIES AND EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 639,962	644,424
Notes payable to banks	108,745	91,294
Accounts payable and accrued expenses	20,781	20,969
Other liabilities	14,943	15,083
Total Liabilities	784,431	771,770
EQUITY		
Stockholders' Equity:		
Common shares; \$.0001 par value; 70,000,000 shares authorized; 27,062,686 shares issued and outstanding at June 30, 2011 and 26,973,531 at December 31, 2010	3	3
Excess shares; \$.0001 par value; 30,000,000 shares authorized; no shares issued	—	—
Additional paid-in capital on common shares	592,824	591,106
Distributions in excess of earnings	(200,270)	(182,253)
Total Stockholders' Equity	392,557	408,856
Noncontrolling interest in joint ventures	2,709	2,650
Total Equity	395,266	411,506
TOTAL LIABILITIES AND EQUITY	\$ 1,179,697	1,183,276

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUES				
Income from real estate operations	\$43,244	43,528	86,499	87,959
Other income	21	60	44	88
	43,265	43,588	86,543	88,047
EXPENSES				
Expenses from real estate operations	12,575	13,045	25,035	26,569
Depreciation and amortization	14,106	14,706	28,353	29,423
General and administrative	2,607	2,544	5,576	5,154
	29,288	30,295	58,964	61,146
OPERATING INCOME	13,977	13,293	27,579	26,901
OTHER INCOME (EXPENSE)				
Equity in earnings of unconsolidated investment	87	83	173	167
Gain on sales of non-operating real estate	9	8	18	19
Interest income	84	86	167	167
Interest expense	(8,542)	(8,892)	(17,420)	(17,670)
NET INCOME	5,615	4,578	10,517	9,584
Net income attributable to noncontrolling interest in joint ventures	(123)	(101)	(233)	(204)
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	\$5,492	4,477	10,284	9,380
BASIC PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Net income attributable to common stockholders	\$.20	.17	.38	.35
Weighted average shares outstanding	26,820	26,748	26,815	26,741
DILUTED PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Net income attributable to common stockholders	\$.20	.17	.38	.35

Weighted average shares outstanding	26,897	26,815	26,884	26,802
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See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)
(UNAUDITED)

	Common Stock	Additional Paid-In Capital	Distributions In Excess Of Earnings	Noncontrolling Interest in Joint Ventures	Total
BALANCE, DECEMBER 31, 2010	\$ 3	591,106	(182,253)	2,650	411,506
Net income	–	–	10,284	233	10,517
Common dividends declared – \$1.04 per share	–	–	(28,301)	–	(28,301)
Stock-based compensation, net of forfeitures	–	1,648	–	–	1,648
Issuance of 4,750 shares of common stock, options exercised	–	103	–	–	103
Issuance of 2,860 shares of common stock, dividend reinvestment plan	–	124	–	–	124
Withheld 3,564 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock	–	(157)	–	–	(157)
Distributions to noncontrolling interest	–	–	–	(174)	(174)
BALANCE, JUNE 30, 2011	\$ 3	592,824	(200,270)	2,709	395,266

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Six Months Ended June 30,	
	2011	2010
OPERATING ACTIVITIES		
Net income	\$10,517	9,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization from continuing operations	28,353	29,423
Amortization of mortgage loan premiums	(63)	(62)
Gain on sales of land and real estate investments	(18)	(19)
Amortization of discount on mortgage loan receivable	(8)	(7)
Stock-based compensation expense	1,382	952
Equity in earnings of unconsolidated investment, net of distributions	(2)	(22)
Changes in operating assets and liabilities:		
Accrued income and other assets	1,090	1,699
Accounts payable, accrued expenses and prepaid rent	(965)	(3,335)
NET CASH PROVIDED BY OPERATING ACTIVITIES	40,286	38,213
INVESTING ACTIVITIES		
Real estate development	(11,137)	(4,798)
Purchases of real estate	-	(23,906)
Real estate improvements	(10,645)	(9,839)
Repayments on mortgage loans receivable	18	19
Changes in accrued development costs	661	(307)
Changes in other assets and other liabilities	(3,611)	(3,173)
NET CASH USED IN INVESTING ACTIVITIES	(24,714)	(42,004)
FINANCING ACTIVITIES		
	135,491	104,945

Proceeds from bank borrowings		
Repayments on bank borrowings	(118,040)	(63,506)
Proceeds from mortgage notes payable	65,000	–
Principal payments on mortgage notes payable	(69,399)	(9,668)
Debt issuance costs	(619)	(38)
Distributions paid to stockholders	(27,922)	(28,102)
Proceeds from common stock offerings	–	303
Proceeds from exercise of stock options	103	188
Proceeds from dividend reinvestment plan	121	134
Other	(344)	(1,386)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(15,609)	2,870
DECREASE IN CASH AND CASH EQUIVALENTS	(37)	(921)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	137	1,062
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 100	141
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amount capitalized of \$1,743 and \$1,836 for 2011 and 2010, respectively	\$ 16,871	17,255
Fair value of common stock awards issued to employees and directors, net of forfeitures	3,836	5,174

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements of EastGroup Properties, Inc. (“EastGroup” or “the Company”) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In management’s opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements contained in the 2010 annual report on Form 10-K and the notes thereto.

Certain reclassifications have been made in the 2010 consolidated financial statements to conform to the 2011 presentation.

(2) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EastGroup, its wholly-owned subsidiaries and its investment in any joint ventures in which the Company has a controlling interest. At June 30, 2011 and December 31, 2010, the Company had a controlling interest in two joint ventures: the 80% owned University Business Center and the 80% owned Castilian Research Center. The Company records 100% of the joint ventures’ assets, liabilities, revenues and expenses with noncontrolling interests provided for in accordance with the joint venture agreements. The equity method of accounting is used for the Company’s 50% undivided tenant-in-common interest in Industry Distribution Center II. All significant intercompany transactions and accounts have been eliminated in consolidation.

(3) USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the reporting period and to disclose material contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(4) REAL ESTATE PROPERTIES

EastGroup has one reportable segment – industrial properties. These properties are concentrated in major Sunbelt markets of the United States, primarily in the states of Florida, Texas, Arizona, California and North Carolina, have similar economic characteristics and also meet the other criteria that permit the properties to be aggregated into one reportable segment.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows (including estimated future expenditures necessary to substantially complete the asset) expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2011 and December 31,

2010, the Company determined no impairment charges on the Company's real estate properties were necessary.

Depreciation of buildings and other improvements, including personal property, is computed using the straight-line method over estimated useful lives of generally 40 years for buildings and 3 to 15 years for improvements and personal property. Building improvements are capitalized, while maintenance and repair expenses are charged to expense as incurred. Significant renovations and improvements that improve or extend the useful life of the assets are capitalized. Depreciation expense was \$12,014,000 and \$24,103,000 for the three and six months ended June 30, 2011, respectively and \$12,132,000 and \$24,207,000 for the same periods in 2010.

The Company's real estate properties at June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Real estate properties:		
Land	\$ 221,523	221,523
Buildings and building improvements	990,681	985,798
Tenant and other improvements	247,823	240,134
Development	82,518	73,722
	1,542,545	1,521,177
Less accumulated depreciation	(427,290)	(403,187)
	\$ 1,115,255	1,117,990

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(5) DEVELOPMENT

During the period in which a property is under development, costs associated with development (i.e., land, construction costs, interest expense, property taxes and other direct and indirect costs associated with development) are aggregated into the total capitalized costs of the property. Included in these costs are management's estimates for the portions of internal costs (primarily personnel costs) deemed directly or indirectly related to such development activities. As the property becomes occupied, depreciation commences on the occupied portion of the building, and costs are capitalized only for the portion of the building that remains vacant. When the property becomes 80% occupied or one year after completion of the shell construction (whichever comes first), capitalization of development costs ceases. The properties are then transferred to real estate properties, and depreciation commences on the entire property (excluding the land).

(6) BUSINESS COMBINATIONS AND ACQUIRED INTANGIBLES

Upon acquisition of real estate properties, the Company applies the principles of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations, which requires that acquisition-related costs be recognized as expenses in the periods in which the costs are incurred and the services are received. The Codification also provides guidance on how to properly determine the allocation of the purchase price among the individual components of both the tangible and intangible assets based on their respective fair values. Goodwill is recorded when the purchase price exceeds the fair value of the assets and liabilities acquired. The Company determines whether any financing assumed is above or below market based upon comparison to similar financing terms for similar properties. The cost of the properties acquired may be adjusted based on indebtedness assumed from the seller that is determined to be above or below market rates. Factors considered by management in allocating the cost of the properties acquired include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. The allocation to tangible assets (land, building and improvements) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models.

The purchase price is also allocated among the following categories of intangible assets: the above or below market component of in-place leases, the value of in-place leases, and the value of customer relationships. The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate reflecting the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above and below market leases are included in Other Assets and Other Liabilities, respectively, on the Consolidated Balance Sheets and are amortized to rental income over the remaining terms of the respective leases. The total amount of intangible assets is further allocated to in-place lease values and customer relationship values based upon management's assessment of their respective values. These intangible assets are included in Other Assets on the Consolidated Balance Sheets and are amortized over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable. Amortization expense for in-place lease intangibles was \$475,000 and \$1,032,000 for the three and six months ended June 30, 2011, respectively, and \$841,000 and \$1,785,000 for the same periods in 2010. Amortization of above and below market leases decreased rental income by \$85,000 and \$185,000 for the three and six months ended June 30, 2011, respectively, and decreased rental income by \$157,000 and \$178,000 for the same periods in 2010.

There were no acquisitions during the first six months of 2011. Acquisition-related costs are included in General and Administrative Expenses on the Consolidated Statements of Income. EastGroup did not expense any acquisition-related costs in the six months ended June 30, 2011. The Company expensed acquisition-related costs of \$23,000 and \$72,000 during the three and six months ended June 30, 2010, respectively.

The Company periodically reviews the recoverability of goodwill (at least annually) and the recoverability of other intangibles (on a quarterly basis) for possible impairment. In management's opinion, no impairment of goodwill and other intangibles existed at June 30, 2011 and December 31, 2010.

(7) REAL ESTATE HELD FOR SALE/DISCONTINUED OPERATIONS

The Company considers a real estate property to be held for sale when it meets the criteria established under ASC 360, Property, Plant, and Equipment, including when it is probable that the property will be sold within a year. A key indicator of probability of sale is whether the buyer has a significant amount of earnest money at risk. Real estate properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. In accordance with the guidelines established under the Codification, the results of operations for the properties sold or held for sale during the reported periods are shown under Discontinued Operations on the Consolidated Statements of Income. Interest expense is not generally allocated to the properties held for sale or whose operations are included under Discontinued Operations unless the mortgage is required to be paid in full upon the sale of the property.

EastGroup did not sell any real estate properties during 2010 or during the first six months of 2011, and the Company had no real estate properties held for sale at June 30, 2011. Therefore, the Company has no Discontinued Operations on the Consolidated Statements of Income.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(8) OTHER ASSETS

A summary of the Company's Other Assets follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Leasing costs (principally commissions), net of accumulated amortization	\$ 22,439	22,274
Straight-line rent receivable, net of allowance for doubtful accounts	19,793	18,694
Accounts receivable, net of allowance for doubtful accounts	2,015	2,460
Mortgage loans receivable, net of discount of \$48 and \$56 for 2011 and 2010, respectively	4,122	4,131
Loan costs, net of accumulated amortization	3,442	3,358
Acquired in-place lease intangibles, net of accumulated amortization of \$7,475 and \$6,443 for 2011 and 2010, respectively	2,014	3,046
Goodwill	990	990
Prepaid expenses and other assets	6,784	7,456
	\$ 61,599	62,409

(9) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of the Company's Accounts Payable and Accrued Expenses follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Property taxes payable	\$ 11,297	9,776
Interest payable	2,703	2,625
Dividends payable on nonvested restricted stock	1,170	791
Development costs payable	1,376	673
Other payables and accrued expenses	4,235	7,104
	\$ 20,781	20,969

(10) OTHER LIABILITIES

A summary of the Company's Other Liabilities follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Security deposits	\$ 8,677	8,299
Prepaid rent and other deferred income	6,054	6,440
Other liabilities	212	344
	\$ 14,943	15,083

(11) COMPREHENSIVE INCOME

Comprehensive income is comprised of net income plus all other changes in equity from non-owner sources. The components of Accumulated Other Comprehensive Loss are summarized below. See Note 12 for information regarding the Company's interest rate swap, which was settled in October 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
ACCUMULATED OTHER COMPREHENSIVE LOSS:				
Balance at beginning of period	\$-	(256)	-	(318)
Change in fair value of interest rate swap	-	97	-	159
Balance at end of period	\$-	(159)	-	(159)

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(12) DERIVATIVES AND HEDGING ACTIVITIES

ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also provides guidance for using fair value to measure financial assets and liabilities. The Codification requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

ASC 815, Derivatives and Hedging, requires all entities with derivative instruments to disclose information regarding how and why the entity uses derivative instruments and how derivative instruments and related hedged items affect the entity's financial position, financial performance, and cash flows. EastGroup does not currently have any derivatives or hedging instruments.

On October 1, 2010, EastGroup repaid its \$8,770,000 mortgage loan on the Tower Automotive Center. Until the repayment, the Company had an interest rate swap agreement to hedge its exposure to the variable interest rate on this mortgage. The Company's interest rate swap was reported at fair value and shown on the Consolidated Balance Sheets under Other Liabilities. The fair value of the Company's interest rate swap was determined by estimating the expected cash flows over the life of the swap using the mid-market rate and price environment as of the last trading day of the reporting period. This market information is considered a Level 2 input as defined by ASC 820. Under the swap agreement, the Company effectively paid a fixed rate of interest over the term of the agreement without the exchange of the underlying notional amount. This swap was designated as a cash flow hedge and was considered to be fully effective in hedging the variable rate risk associated with the Tower mortgage loan. Changes in the fair value of the swap were recognized in other comprehensive income (loss) (see Note 11). The Company did not hold or issue this type of derivative contract for trading or speculative purposes.

(13) EARNINGS PER SHARE

The Company applies ASC 260, Earnings Per Share, which requires companies to present basic and diluted earnings per share (EPS). Basic EPS represents the amount of earnings for the period attributable to each share of common stock outstanding during the reporting period. The Company's basic EPS is calculated by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding.

Diluted EPS represents the amount of earnings for the period attributable to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. The Company calculates diluted EPS by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding plus the dilutive effect of nonvested restricted stock and stock options had the options been exercised. The dilutive effect of stock options and their equivalents (such as nonvested restricted stock) was determined using the treasury stock method which assumes exercise of the options as of the beginning of the period or when issued, if later, and assumes proceeds from the exercise of options are used to purchase common stock at the average market price during the period.

Reconciliation of the numerators and denominators in the basic and diluted EPS computations is as follows:

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010

(In thousands)

**BASIC EPS COMPUTATION FOR NET INCOME
ATTRIBUTABLE TO EASTGROUP PROPERTIES,
INC.**

COMMON STOCKHOLDERS

Numerator – net income attributable to common stockholders	\$5,492	4,477	10,284	9,380
Denominator – weighted average shares outstanding	26,820	26,748	26,815	26,741

**DILUTED EPS COMPUTATION FOR NET INCOME
ATTRIBUTABLE TO EASTGROUP PROPERTIES,
INC.**

COMMON STOCKHOLDERS

Numerator – net income attributable to common stockholders	\$5,492	4,477	10,284	9,380
Denominator:				
Weighted average shares outstanding	26,820	26,748	26,815	26,741
Common stock options	7	12	7	13
Nonvested restricted stock	70	55	62	48
Total Shares	26,897	26,815	26,884	26,802

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(14) STOCK-BASED COMPENSATION

Equity Incentive Plan

In May 2004, the stockholders of the Company approved the EastGroup Properties, Inc. 2004 Equity Incentive Plan (the "Plan") that authorized the issuance of up to 1,900,000 shares of common stock to employees in the form of options, stock appreciation rights, restricted stock, deferred stock units, performance shares, bonus stock or stock in lieu of cash compensation. The Plan was further amended by the Board of Directors in September 2005 and December 2006. Total shares available for grant were 1,406,923 at June 30, 2011. Typically, the Company issues new shares to fulfill stock grants or upon the exercise of stock options.

Stock-based compensation cost was \$554,000 and \$1,348,000 for the three and six months ended June 30, 2011, respectively, of which \$47,000 and \$86,000 were capitalized as part of the Company's development costs. For the three and six months ended June 30, 2010, stock-based compensation cost was \$417,000 and \$861,000, respectively, of which \$18,000 and \$29,000 were capitalized as part of the Company's development costs.

Equity Awards

In the second quarter of 2011, the Company's Board of Directors approved an equity compensation plan for its executive officers based upon the attainment of certain annual performance goals. These goals are for the period ending December 31, 2011, so any shares issued upon attainment of these goals will be issued after that date. The number of shares to be issued could range from zero to 50,705. These shares will vest 20% on the date shares are determined and awarded and 20% per year on each January 1 for the subsequent four years.

Also in the second quarter of 2011, EastGroup's Board of Directors approved an equity compensation plan for the Company's executive officers based on EastGroup's absolute and relative total stockholder return for the five-year period ending December 31, 2011. Any shares issued pursuant to this equity compensation plan will be issued after that date. The number of shares to be issued could range from zero to 53,680. These shares will vest 25% per year on January 1 in years 2012, 2013, 2014 and 2015.

Notwithstanding the foregoing, pursuant to a special vesting provision adopted by the Company's Compensation Committee, shares issued to the Company's Chief Executive Officer, David H. Hoster II, will become fully vested no later than January 1, 2014.

Following is a summary of the total shares granted, forfeited and delivered (vested) to employees with the related weighted average grant date fair value share prices. Of the shares that vested in the first quarter of 2011, the Company withheld 3,564 shares to satisfy the tax obligations for those employees who elected this option as permitted under the applicable equity plan. As of the vesting date, the fair value of shares that vested during the first quarter of 2011 was \$613,000. There were no shares that vested in the second quarter of 2011.

Award Activity:	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	235,162	\$38.89	170,575	\$36.29
Granted	—	—	78,491	45.05
Forfeited	—	—	—	—

Vested	–	–	(13,904)	41.77
Nonvested at end of period	235,162	\$38.89	235,162	\$38.89

Directors Equity Plan

In May 2005, the stockholders of the Company approved the EastGroup Properties, Inc. 2005 Directors Equity Incentive Plan that authorized the issuance of up to 50,000 shares of common stock through awards of shares and restricted shares granted to non-employee directors of the Company. The Directors Equity Incentive Plan was further amended by the Board of Directors in May 2006, May 2008 and May 2011. Stock-based compensation expense for directors was \$60,000 and \$120,000 for the three and six months ended June 30, 2011, respectively, and \$60,000 and \$120,000 for the same periods in 2010.

(15) RISKS AND UNCERTAINTIES

The state of the overall economy can significantly impact the Company's operational performance and thus impact its financial position. Should EastGroup experience a significant decline in operational performance, it may affect the Company's ability to make distributions to its shareholders, service debt, or meet other financial obligations.

Mortgage loans receivable, net of discount	4,122	4,251	4,131	4,199
Financial Liabilities:				
Mortgage notes payable	639,962	678,213	644,424	671,527
Notes payable to banks	108,745	108,396	91,294	89,818

Carrying amounts shown in the table are included in the Consolidated Balance Sheets under the indicated captions, except as indicated in the notes below.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amounts approximate fair value due to the short maturity of those instruments.

Mortgage loans receivable, net of discount (included in Other Assets on the Consolidated Balance Sheets): The fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (Level 2 input).

Mortgage notes payable: The fair value of the Company's mortgage notes payable is estimated by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers (Level 2 input).

Notes payable to banks: The fair value of the Company's notes payable to banks is estimated by discounting expected cash flows at current market rates (Level 2 input).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

EastGroup's goal is to maximize shareholder value by being a leading provider in its markets of functional, flexible, and quality business distribution space for location sensitive tenants primarily in the 5,000 to 50,000 square foot range. The Company acquires, develops and operates distribution facilities, the majority of which are clustered around major transportation features in supply constrained submarkets in major Sunbelt regions. The Company's core markets are in the states of Florida, Texas, Arizona, California and North Carolina.

The Company believes the slowdown in the economy has affected and will continue to affect its operations. While occupancy has stabilized and is currently improving, the Company has experienced decreases in rental rates. The current economic situation is also impacting lenders, making it more difficult to obtain financing. Loan proceeds as a percentage of property values have decreased, and property values have decreased. The Company believes its current operating cash flow and lines of credit provide the capacity to fund the operations of the Company for the remainder of 2011 and 2012. The Company also believes it can issue common and/or preferred equity and obtain mortgage financing from insurance companies and financial institutions as evidenced by the closing of a \$65 million, non-recourse first mortgage loan in May 2011, which is described in Liquidity and Capital Resources.

The Company's primary revenue is rental income; as such, EastGroup's greatest challenge is leasing space. During the six months ended June 30, 2011, leases expired on 2,291,000 square feet (8.2%) of EastGroup's total square footage of 28,105,000, and the Company was successful in renewing or re-leasing 82% of the expiring square feet. In addition, EastGroup leased 1,228,000 square feet of other vacant space during this period. During the six months ended June 30, 2011, average rental rates on new and renewal leases decreased by 12.8%. Property net operating income (PNOI) from same properties increased 0.3% for the quarter ended June 30, 2011, as compared to the same quarter in 2010. For the six months ended June 30, 2011, PNOI from same properties decreased 0.9% as compared to the same period last year.

EastGroup's total leased percentage was 92.1% at June 30, 2011, compared to 89.1% at June 30, 2010. Leases scheduled to expire for the remainder of 2011 were 4.7% of the portfolio on a square foot basis at June 30, 2011, and this figure was reduced to 4.1% as of July 22, 2011.

The Company generates new sources of leasing revenue through its acquisition and development programs. EastGroup continues to see targeted development as a contributor to the Company's long-term growth. The Company mitigates risks associated with development through a Board-approved maximum level of land held for development and by adjusting development start dates according to leasing activity. During the second quarter of 2011, the Company acquired 31.5 acres of development land in Chandler (Phoenix), Arizona, which will accommodate the future development of approximately 420,000 square feet of business distribution buildings. EastGroup began construction of several development projects in recent months. In December 2010, EastGroup began construction of World Houston 31 (44,000 square feet). During the first quarter of 2011, EastGroup began construction of two new business distribution buildings, Beltway Crossing VIII (88,000 square feet) and the 100% pre-leased World Houston 32 (94,000 square feet). The three development projects have a projected total investment of \$16.7 million.

During the first six months of 2011, the Company initially funded its development program through its \$225 million lines of credit (as discussed in Liquidity and Capital Resources). As market conditions permit, EastGroup issues equity, including preferred equity, and/or employs fixed-rate debt to replace short-term bank borrowings.

EastGroup has one reportable segment – industrial properties. These properties are primarily located in major Sunbelt regions of the United States, have similar economic characteristics and also meet the other criteria permitting the properties to be aggregated into one reportable segment. The Company’s chief decision makers use two primary measures of operating results in making decisions: (1) property net operating income (PNOI), defined as income from real estate operations less property operating expenses (before interest expense and depreciation and amortization), and (2) funds from operations attributable to common stockholders (FFO), defined as net income (loss) attributable to common stockholders computed in accordance with U.S. generally accepted accounting principles (GAAP), excluding gains or losses from sales of depreciable real estate property, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The Company calculates FFO based on the National Association of Real Estate Investment Trusts’ (NAREIT) definition.

PNOI is a supplemental industry reporting measurement used to evaluate the performance of the Company’s real estate investments. The Company believes the exclusion of depreciation and amortization in the industry’s calculation of PNOI provides a supplemental indicator of the properties’ performance since real estate values have historically risen or fallen with market conditions. PNOI as calculated by the Company may not be comparable to similarly titled but differently calculated measures for other real estate investment trusts (REITs). The major factors influencing PNOI are occupancy levels, acquisitions and sales, development properties that achieve stabilized operations, rental rate increases or decreases, and the recoverability of operating expenses. The Company’s success depends largely upon its ability to lease space and to recover from tenants the operating costs associated with those leases.

PNOI is comprised of Income from real estate operations, less Expenses from real estate operations. PNOI was calculated as follows for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Income from real estate operations	\$ 43,244	43,528	86,499	87,959
Expenses from real estate operations	(12,575)	(13,045)	(25,035)	(26,569)
PROPERTY NET OPERATING INCOME	\$ 30,669	30,483	61,464	61,390

Income from real estate operations is comprised of rental income, pass-through income and other real estate income including lease termination fees. Expenses from real estate operations is comprised of property taxes, insurance, utilities, repair and maintenance expenses, management fees, other operating costs and bad debt expense. Generally, the Company's most significant operating expenses are property taxes and insurance. Tenant leases may be net leases in which the total operating expenses are recoverable, modified gross leases in which some of the operating expenses are recoverable, or gross leases in which no expenses are recoverable (gross leases represent only a small portion of the Company's total leases). Increases in property operating expenses are fully recoverable under net leases and recoverable to a high degree under modified gross leases. Modified gross leases often include base year amounts and expense increases over these amounts are recoverable. The Company's exposure to property operating expenses is primarily due to vacancies and leases for occupied space that limit the amount of expenses that can be recovered.

The following table presents reconciliations of Net Income to PNOI for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
NET INCOME	\$5,615	4,578	10,517	9,584
Equity in earnings of unconsolidated investment	(87)	(83)	(173)	(167)
Interest income	(84)	(86)	(167)	(167)
Other income	(21)	(60)	(44)	(88)
Gain on sales of non-operating real estate	(9)	(8)	(18)	(19)
Depreciation and amortization from continuing operations	14,106	14,706	28,353	29,423
Interest expense	8,542	8,892	17,420	17,670
General and administrative expense	2,607	2,544	5,576	5,154
PROPERTY NET OPERATING INCOME	\$30,669	30,483	61,464	61,390

The Company believes FFO is a meaningful supplemental measure of operating performance for equity REITs. The Company believes that excluding depreciation and amortization in the calculation of FFO is appropriate since real estate values have historically increased or decreased based on market conditions. FFO is not considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance, nor is it a measure of the Company's liquidity or indicative of funds available to provide for the Company's cash needs, including its ability to make distributions. In addition, FFO, as reported by the Company, may not be comparable to FFO by other REITs that do not define the term in accordance with the current NAREIT definition. The Company's key drivers affecting FFO are changes in PNOI (as discussed above), interest rates, the amount of leverage the Company employs and general and administrative expense. The following table presents

reconciliations of Net Income Attributable to EastGroup Properties, Inc. Common Stockholders to FFO for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	\$ 5,492	4,477	10,284	9,380
Depreciation and amortization from continuing operations	14,106	14,706	28,353	29,423
Depreciation from unconsolidated investment	34	33	67	66
Noncontrolling interest depreciation and amortization	(54)	(53)	(108)	(105)
FUNDS FROM OPERATIONS (FFO) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 19,578	19,163	38,596	38,764
Net income attributable to common stockholders per diluted share	\$.20	.17	.38	.35
Funds from operations (FFO) attributable to common stockholders per diluted share	.73	.71	1.44	1.45
Diluted shares for earnings per share and funds from operations	26,897	26,815	26,884	26,802

The Company analyzes the following performance trends in evaluating the progress of the Company:

- The FFO change per share represents the increase or decrease in FFO per share from the same quarter in the current year compared to the prior year. FFO per share for the second quarter of 2011 was \$.73 per share compared with \$.71 per share for the same period of 2010, an increase of 2.8% per share.

For the six months ended June 30, 2011, FFO was \$1.44 per share compared with \$1.45 per share for the same period of 2010, a decrease of 0.7% per share.

FFO per share increased for the second quarter primarily due to a decrease in interest expense and an increase in PNOI in 2011 as compared to 2010. The decrease in FFO for the six months ended June 30, 2011, was mainly due to an increase in general and administrative expenses, offset by a decrease in interest expense and an increase in PNOI in the six months compared to the same period in 2010. The decrease in interest expense was primarily due to lower interest rates on the refinancing of two mortgage loans repaid in 2011 and the regularly scheduled principal amortization on existing loans.

- Same property net operating income change represents the PNOI increase or decrease for the same operating properties owned during the entire current period and prior year reporting period. PNOI from same properties increased 0.3% for the three months ended June 30, 2011, and decreased 0.9% for the six months.
- Occupancy is the percentage of leased square footage for which the lease term has commenced as compared to the total leasable square footage as of the close of the reporting period. Occupancy at June 30, 2011, was

91.0%. Quarter-end occupancy ranged from 87.2% to 91.0% over the period from June 30, 2010 to June 30, 2011.

- Rental rate change represents the rental rate increase or decrease on new and renewal leases compared to the prior leases on the same space. Rental rate decreases on new and renewal leases (5.3% of total square footage) averaged 5.4% for the second quarter of 2011. For the six months ended June 30, 2011, rental rate decreases on new and renewal leases (11.1% of total square footage) averaged 12.8%.
- Termination fee income for the three and six months ended June 30, 2011, was \$35,000 and \$490,000, respectively, compared to \$1,025,000 and \$2,438,000, respectively, for the same periods of 2010. Bad debt expense for the three and six months ended June 30, 2011 was \$165,000 and \$299,000, respectively, compared to \$126,000 and \$742,000, respectively, for the same periods last year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's management considers the following accounting policies and estimates to be critical to the reported operations of the Company.

Real Estate Properties

The Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values. Goodwill is recorded when the purchase price exceeds the fair value of the assets and liabilities acquired. Factors considered by management in allocating the cost of the properties acquired include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. The allocation to tangible assets (land, building and improvements) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models. The purchase price is also allocated among the following categories of intangible assets: the above or below market component of in-place leases, the value of in-place leases, and the value of customer relationships. The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate reflecting the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above and below market leases are included in Other Assets and Other Liabilities, respectively, on the Consolidated Balance Sheets and are amortized to rental income over the remaining terms of the respective leases. The total amount of intangible assets is further allocated to in-place lease values and customer relationship values based upon management's assessment of their respective values. These intangible assets are included in Other Assets on the Consolidated Balance Sheets and are amortized over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

During the period in which a property is under development, costs associated with development (i.e., land, construction costs, interest expense, property taxes and other direct and indirect costs associated with development) are aggregated into the total capitalized costs of the property. Included in these costs are management's estimates for the portions of internal costs (primarily personnel costs) deemed directly or indirectly related to such development activities.

The Company reviews its real estate investments for impairment of value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any real estate investment is considered permanently impaired, a loss is recorded to reduce the carrying value of the property to its estimated fair value. Real estate assets to be sold are reported at the lower of the carrying amount or fair value less selling costs. The evaluation of real estate investments involves many subjective assumptions dependent upon future economic events that affect the ultimate value of the property. Currently, the Company's management is not aware of any impairment issues nor has it experienced any significant impairment issues in recent years. EastGroup currently has the intent and ability to hold its real estate investments and to hold its land inventory for future development. In the event of impairment, the property's basis would be reduced, and the impairment would be recognized as a current period charge on the Consolidated Statements of Income.

Valuation of Receivables

The Company is subject to tenant defaults and bankruptcies that could affect the collection of outstanding receivables. In order to mitigate these risks, the Company performs credit reviews and analyses on prospective tenants before significant leases are executed and on existing tenants before properties are acquired. On a quarterly basis, the Company evaluates outstanding receivables and estimates the allowance for doubtful accounts. Management specifically analyzes aged receivables, customer credit-worthiness, historical bad debts and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. The Company

believes its allowance for doubtful accounts is adequate for its outstanding receivables for the periods presented. In the event the allowance for doubtful accounts is insufficient for an account that is subsequently written off, additional bad debt expense would be recognized as a current period charge on the Consolidated Statements of Income.

Tax Status

EastGroup, a Maryland corporation, has qualified as a real estate investment trust under Sections 856-860 of the Internal Revenue Code and intends to continue to qualify as such. To maintain its status as a REIT, the Company is required to distribute at least 90% of its ordinary taxable income to its stockholders. The Company has the option of (i) reinvesting the sales price of properties sold through tax-deferred exchanges, allowing for a deferral of capital gains on the sale, (ii) paying out capital gains to the stockholders with no tax to the Company, or (iii) treating the capital gains as having been distributed to the stockholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the stockholders. The Company distributed all of its 2010 taxable income to its stockholders and expects to distribute all of its taxable income in 2011. Accordingly, no provision for income taxes was necessary in 2010, nor is it expected to be necessary for 2011.

FINANCIAL CONDITION

EastGroup's assets were \$1,179,697,000 at June 30, 2011, a decrease of \$3,579,000 from December 31, 2010. Liabilities increased \$12,661,000 to \$784,431,000, and equity decreased \$16,240,000 to \$395,266,000 during the same period. The paragraphs that follow explain these changes in detail.

Assets

Real Estate Properties

Real estate properties increased \$12,572,000 during the six months ended June 30, 2011, primarily due to capital improvements at the Company's properties and the transfer of one property from development, as detailed under Development below.

The Company made capital improvements of \$10,231,000 on existing and acquired properties (included in the Capital Expenditures table under Results of Operations). Also, the Company incurred costs of \$858,000 on development properties subsequent to transfer to Real Estate Properties; the Company records these expenditures as development costs on the Consolidated Statements of Cash Flows.

Accumulated depreciation on real estate and development properties increased \$24,103,000 during the first six months of 2011 due to depreciation expense on real estate properties.

Development

EastGroup's investment in development at June 30, 2011 consisted of properties in lease-up and under construction of \$8,736,000 and prospective development (primarily land) of \$73,782,000. The Company's total investment in development at June 30, 2011 was \$82,518,000 compared to \$73,722,000 at December 31, 2010. Total capital invested for development during the first six months of 2011 was \$11,137,000, which consisted of costs of \$10,203,000 and \$76,000 as detailed in the development activity table and costs of \$858,000 on development properties subsequent to transfer to Real Estate Properties.

During the second quarter of 2011, EastGroup purchased 31.5 acres of development land in Chandler (Phoenix), Arizona, for \$3,219,000. Costs associated with this acquisition are included in the development activity table. The Company transferred one development to Real Estate Properties during the first six months of 2011 with a total investment of \$1,483,000 as of the date of transfer.

DEVELOPMENT	Size (Square feet)	Costs Transferred in 2011(1)	Costs Incurred		Estimated Total Costs
			For the Six Months Ended 6/30/11	Cumulative as of 6/30/11	
(In thousands)					
LEASE-UP					
World Houston 31, Houston, TX	44,000	\$ —	2,234	3,289	4,600
Total Lease-Up	44,000	—	2,234	3,289	4,600
UNDER CONSTRUCTION					
Beltway Crossing VIII, Houston, TX	88,000	1,256	1,912	3,168	5,300
World Houston 32, Houston, TX	94,000	1,834	445	2,279	6,800
Total Under Construction	182,000	3,090	2,357	5,447	12,100

PROSPECTIVE DEVELOPMENT (PRIMARILY LAND)					
Phoenix, AZ	420,000	–	3,264	3,264	30,800
Tucson, AZ	70,000	–	–	417	4,900
Tampa, FL	249,000	–	141	4,341	14,600
Orlando, FL	1,584,000	–	1,004	24,036	101,700
Fort Myers, FL	659,000	–	331	16,885	48,100
Dallas, TX	70,000	–	31	733	4,100
El Paso, TX	251,000	–	–	2,444	9,600
Houston, TX	812,000	(3,090)	576	12,884	51,800
San Antonio, TX	593,000	–	229	6,861	41,800
Charlotte, NC	95,000	–	36	1,211	7,100
Jackson, MS	28,000	–	–	706	2,000
Total Prospective Development	4,831,000	(3,090)	5,612	73,782	316,500
	5,057,000	\$ –	10,203	82,518	333,200
DEVELOPMENTS COMPLETED AND TRANSFERRED TO REAL ESTATE PROPERTIES DURING 2011					
Arion 8 Expansion, San Antonio, TX	20,000	\$ –	76	1,483	
Total Transferred to Real Estate Properties	20,000	\$ –	76	1,483	(2)

(1) Represents costs transferred from Prospective Development (primarily land) to Under Construction during the period.

(2) Represents cumulative costs at the date of transfer.

A summary of Other Assets is presented in Note 8 in the Notes to Consolidated Financial Statements.

Liabilities

Mortgage notes payable decreased \$4,462,000 during the six months ended June 30, 2011. The decrease resulted from the repayment of two mortgages of \$58,897,000, regularly scheduled principal payments of \$10,502,000 and mortgage loan premium amortization of \$63,000, offset by a \$65,000,000 mortgage loan executed by the Company during the second quarter.

Notes payable to banks increased \$17,451,000 during the six months ended June 30, 2011, as a result of advances of \$135,491,000 exceeding repayments of \$118,040,000. The Company's credit facilities are described in greater detail under Liquidity and Capital Resources.

See Note 9 in the Notes to Consolidated Financial Statements for a summary of Accounts Payable and Accrued Expenses. See Note 10 in the Notes to Consolidated Financial Statements for a summary of Other Liabilities.

Equity

For the six months ended June 30, 2011, distributions in excess of earnings increased \$18,017,000 as a result of dividends on common stock of \$28,301,000 exceeding net income attributable to EastGroup Properties, Inc. common stockholders of \$10,284,000. See Note 14 in the Notes to Consolidated Financial Statements for information related to the changes in additional paid-in capital resulting from stock-based compensation.

RESULTS OF OPERATIONS

(Comments are for the three and six months ended June 30, 2011, compared to the three and six months ended June 30, 2010.)

Net income attributable to common stockholders for the three and six months ended June 30, 2011, was \$5,492,000 (\$.20 per basic and diluted share) and \$10,284,000 (\$.38 per basic and diluted share), respectively, compared to \$4,477,000 (\$.17 per basic and diluted share) and \$9,380,000 (\$.35 per basic and diluted share) for the same periods in 2010. The increases in both periods were primarily due to increased PNOI and decreased interest expense and depreciation and amortization expense, offset by increased general and administrative expense.

PNOI for the three months ended June 30, 2011, increased by \$186,000, or 0.6%, as compared to the same period in 2010. The increase was primarily attributable to increases in PNOI of \$100,000 from same property operations, \$58,000 from newly developed properties and \$24,000 from 2010 acquisitions. For the three months ended June 30, 2011, bad debt expense exceeded termination fee income by \$130,000. For the three months ended June 30, 2010, termination fee income exceeded bad debt expense by \$899,000.

PNOI for the six months ended June 30, 2011, increased by \$74,000, or 0.1%, as compared to the same period in 2010. The increase was primarily attributable to an increase in PNOI of \$430,000 from newly developed properties and \$161,000 from 2010 acquisitions, offset by a decrease in PNOI of \$526,000 from same property operations. For the six months ended June 30, 2011, termination fee income, net of bad debt expense, was \$191,000 compared to \$1,696,000 the same period last year.

Property expense to revenue ratios were 29.1% and 28.9% for the three and six months ended June 30, 2011, respectively, compared to 30.0% and 30.2% for the same periods in 2010. The Company's percentage of leased square footage was 92.1% at June 30, 2011, compared to 89.1% at June 30, 2010. Occupancy at June 30, 2011 was 91.0% compared to 87.2% at June 30, 2010.

The following table presents the components of interest expense for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
(In thousands, except rates of interest)						
Average bank borrowings	\$ 131,379	120,211	11,168	123,723	114,009	9,714
Weighted average variable interest rates (excluding loan cost amortization)	1.38 %	1.48 %		1.42 %	1.41 %	
VARIABLE RATE INTEREST EXPENSE						
Variable rate interest (excluding loan cost amortization)	\$ 452	445	7	870	794	76
Amortization of bank loan costs	74	79	(5)	151	157	(6)
Total variable rate interest expense	526	524	2	1,021	951	70
FIXED RATE INTEREST EXPENSE						
Fixed rate interest (excluding loan cost amortization)	8,741	9,058	(317)	17,759	18,184	(425)
Amortization of mortgage loan costs	179	185	(6)	383	371	12
Total fixed rate interest expense	8,920	9,243	(323)	18,142	18,555	(413)
Total interest	9,446	9,767	(321)	19,163	19,506	(343)
Less capitalized interest	(904)	(875)	(29)	(1,743)	(1,836)	93
TOTAL INTEREST EXPENSE	\$ 8,542	8,892	(350)	17,420	17,670	(250)

EastGroup's variable rate interest expense was relatively unchanged for the three months ended June 30, 2011, as compared to the same period last year. For the six months ended June 30, 2011, the Company's variable rate interest expense increased by \$70,000 compared to the same period last year primarily due to an increase in the Company's average bank borrowings.

The decrease in mortgage interest expense in 2011 was primarily due to the Company's repayment of three mortgages as shown in the following table:

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MORTGAGE LOANS REPAID IN 2010 AND 2011	Interest Rate		Date Repaid	Payoff Amount
Tower Automotive Center	6.03	%	10/01/10	\$8,770,000
Butterfield Trail, Glenmont I & II, Interstate I, II & III, Rojas, Stemmons Circle, Venture and West Loop I & II	7.25	%	01/31/11	36,065,000
America Plaza, Central Green and World Houston 3-9	7.92	%	05/10/11	22,832,000
Weighted Average/Total Amount	7.32	%		\$67,667,000

The repayments were partially offset by the new mortgages detailed in the table below.

NEW MORTGAGES IN 2010 AND 2011	Interest Rate		Date	Maturity Date	Amount
40th Avenue, Centennial Park, Executive Airport, Beltway V, Techway Southwest IV, Wetmore V-VIII, Ocean View and World Houston 26, 28, 29 & 30	4.39	%	12/28/10	01/05/21	\$ 74,000,000
America Plaza, Central Green, Glenmont I & II, Interstate I, II & III, Rojas, Stemmons Circle, Venture, West Loop I & II and World Houston 3-9	4.75	%	05/31/11	06/05/21	65,000,000
Weighted Average/Total Amount	4.56	%			\$ 139,000,000

Interest costs incurred during the period of construction of real estate properties are capitalized and offset against interest expense. Capitalized interest increased \$29,000 for the three months ended June 30, 2011, as compared to the same quarter of 2010. For the six months ended June 30, 2011, capitalized interest decreased \$93,000 as compared to the same period last year.

Depreciation and amortization expense decreased \$600,000 and \$1,070,000 for the three and six months ended June 30, 2011, as compared to the same periods in 2010. Straight-lining of rent increased income by \$579,000 and \$1,143,000 for the three and six months ended June 30, 2011, compared to \$495,000 and \$1,209,000 for the same periods in 2010. General and administrative expense increased \$63,000 and \$422,000 for the three and six months ended June 30, 2011 as compared to the same periods last year.

Capital Expenditures

Capital expenditures for the Company's operating properties for the three and six months ended June 30, 2011 and 2010 were as follows:

	Estimated Useful Life	Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
(In thousands)					
Upgrade on Acquisitions	40 yrs	\$ 201	10	223	28
Tenant Improvements:					
New Tenants	Lease Life	1,253	3,040	3,764	4,815
New Tenants (first generation) (1)	Lease Life	376	250	1,028	281
Renewal Tenants	Lease Life	373	485	1,559	709
Other:					
Building Improvements	5-40 yrs	799	1,216	2,035	1,864
Roofs	5-15 yrs	772	1,345	863	1,482
Parking Lots	3-5 yrs	274	308	509	359
Other	5 yrs	228	225	250	309
Total Capital Expenditures		\$ 4,276	6,879	10,231	9,847

(1) First generation refers to space that has never been occupied under EastGroup's ownership.

Capitalized Leasing Costs

The Company's leasing costs (principally commissions) are capitalized and included in Other Assets. The costs are amortized over the terms of the associated leases and are included in depreciation and amortization expense. Capitalized leasing costs for the three and six months ended June 30, 2011 and 2010 were as follows:

	Estimated Useful Life	Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
(In thousands)					
Development	Lease Life	\$ 110	78	370	166
New Tenants	Lease Life	624	1,035	1,536	2,058
New Tenants (first generation) (1)	Lease Life	92	31	187	48
Renewal Tenants	Lease Life	474	868	1,289	1,530
Total Capitalized Leasing Costs		\$ 1,300	2,012	3,382	3,802
Amortization of Leasing Costs		\$ 1,617	1,733	3,218	3,431

(1) First generation refers to space that has never been occupied under EastGroup's ownership.

RECENT ACCOUNTING PRONOUNCEMENTS

EastGroup has evaluated all Accounting Standards Updates (ASUs) released by the FASB through the date the financial statements were issued and determined that the following ASUs apply to the Company.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provides guidance about how fair value should be applied where it is already required or permitted under U.S. GAAP. The ASU does not extend the use of fair value or require additional fair value measurements, but rather provides explanations about how to measure fair value. ASU 2011-04 requires prospective application and will be effective for interim and annual reporting periods beginning after December 15, 2011. The Company believes the adoption of this ASU will have an immaterial impact on the Company's overall financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires that all nonowner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 requires retrospective application and will be effective for interim and annual reporting periods beginning after December 15, 2011. The Company believes the adoption of ASU 2011-05 will have an immaterial impact on the Company's disclosures of comprehensive income.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$40,286,000 for the six months ended June 30, 2011. The primary other sources of cash were from bank borrowings and mortgage notes payable. The Company distributed \$27,922,000 in common stock dividends during the six months ended June 30, 2011. Other primary uses of cash were for bank debt repayments, mortgage note repayments, the construction and development of properties, and capital improvements at various properties.

Total debt at June 30, 2011 and December 31, 2010 is detailed below. The Company's bank credit facilities have certain restrictive covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage, and the Company was in compliance with all of its debt covenants at June 30, 2011 and December 31, 2010.

	June 30, 2011	December 31, 2010
	(In thousands)	
Mortgage notes payable – fixed rate	\$ 639,962	644,424
Bank notes payable – floating rate	108,745	91,294
Total debt	\$ 748,707	735,718

EastGroup has a four-year, \$200 million unsecured revolving credit facility with a group of seven banks that matures in January 2012. The interest rate on the facility is based on the LIBOR index and varies according to total liability to total asset value ratios (as defined in the credit agreement), with an annual facility fee of 15 to 20 basis points. The interest rate on each tranche is usually reset on a monthly basis and as of June 30, 2011, was LIBOR plus 85 basis points with an annual facility fee of 20 basis points. The line of credit has an option for a one-year extension on the same terms and conditions at the Company's request. The Company has one letter of credit for \$341,000 associated with this line of credit which reduces the amount available on the credit facility. At June 30, 2011, the weighted average interest rate was 1.040% on a balance of \$106,000,000.

EastGroup also has a four-year, \$25 million unsecured revolving credit facility with PNC Bank, N.A. that matures in January 2012. This credit facility is customarily used for working capital needs. The interest rate on this working capital line is based on the LIBOR index and varies according to total liability to total asset value ratios (as defined in the credit agreement), with no annual facility fee. The interest rate is reset on a daily basis and as of June 30, 2011, was LIBOR plus 90 basis points. At June 30, 2011, the interest rate was 1.086% on a balance of \$2,745,000.

As market conditions permit, EastGroup issues equity, including preferred equity, and/or employs fixed-rate debt to replace the short-term bank borrowings. The current economic situation is impacting lenders, making it more difficult to obtain financing. Loan proceeds as a percentage of property values have decreased, and property values have decreased. The Company believes its current operating cash flow and lines of credit provide the capacity to fund the operations of the Company for the remainder of 2011 and 2012. The Company also believes it can obtain mortgage financing from insurance companies and financial institutions and issue common equity.

On May 31, 2011, EastGroup closed on a \$65 million, non-recourse first mortgage loan with a fixed interest rate of 4.75%, a 10-year term and a 20-year amortization schedule. The loan is secured by properties containing 1.9 million square feet. The Company used the proceeds of this mortgage loan to reduce variable rate bank borrowings.

On January 31, 2011, the Company repaid a mortgage loan with a balance of \$36.1 million and an interest rate of 7.25%. On May 10, 2011, the Company repaid a mortgage loan with a balance of \$22.8 million and an interest rate of 7.92%.

In March 2011, the Company entered into Sales Agency Financing Agreements (the “Agreements”) with BNY Mellon Capital Markets, LLC and Raymond James & Associates, Inc. pursuant to which it will issue and sell shares of its common stock from time to time. As of July 22, 2011, there have been no shares sold under the Agreements.

The Company anticipates that its current cash balance, operating cash flows, borrowings under its lines of credit, proceeds from new mortgage debt and/or proceeds from the issuance of equity instruments will be adequate for (i) operating and administrative expenses, (ii) normal repair and maintenance expenses at its properties, (iii) debt service obligations, (iv) maintaining compliance with its debt covenants, (v) distributions to stockholders, (vi) capital improvements, (vii) purchases of properties, (viii) development, and (ix) any other normal business activities of the Company, both in the short- and long-term.

Contractual Obligations

EastGroup’s fixed, noncancelable obligations as of December 31, 2010, did not materially change during the six months ended June 30, 2011, except for the increase in bank borrowings and decrease in mortgage notes payable discussed above.

INFLATION AND OTHER ECONOMIC CONSIDERATIONS

Most of the Company's leases include scheduled rent increases. Additionally, most of the Company's leases require the tenants to pay their pro rata share of operating expenses, including real estate taxes, insurance and common area maintenance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. In the event inflation causes increases in the Company's general and administrative expenses or the level of interest rates, such increased costs would not be passed through to tenants and could adversely affect the Company's results of operations.

EastGroup's financial results are affected by general economic conditions in the markets in which the Company's properties are located. The current economic recession, or other adverse changes in general or local economic conditions, could result in the inability of some of the Company's existing tenants to make lease payments and may therefore increase bad debt expense. It may also impact the Company's ability to (i) renew leases or re-lease space as leases expire, or (ii) lease development space. In addition, the economic downturn or recession could also lead to an increase in overall vacancy rates or decline in rents the Company can charge to re-lease properties upon expiration of current leases. In all of these cases, EastGroup's cash flows would be adversely affected.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to interest rate changes primarily as a result of its lines of credit and long-term debt maturities. This debt is used to maintain liquidity and fund capital expenditures and expansion of the Company's real estate investment portfolio and operations. The Company's objective for interest rate risk management is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company borrows at fixed rates but also has two variable rate bank lines as discussed under Liquidity and Capital Resources. The table below presents the principal payments due and weighted average interest rates for both the fixed rate and variable rate debt.

	July-Dec.													Fair Value
	2011	2012	2013	2014	2015	Thereafter	Total							
Fixed rate debt (in thousands)	\$11,783	68,684	60,164	96,993	100,279	302,059	639,962							678,213(1)
Weighted average interest rate	5.64 %	6.50 %	5.10 %	5.69 %	5.38 %	5.61 %	5.63 %							
Variable rate debt (in thousands)	\$-	108,745(2)	-	-	-	-	108,745							108,396(3)
Weighted average interest rate	-	1.04 %	-	-	-	-	1.04 %							

- (1) The fair value of the Company's fixed rate debt is estimated based on the quoted market prices for similar issues or by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers.
- (2) The variable rate debt is comprised of two lines of credit with balances of \$106,000,000 on the \$200 million line of credit and \$2,745,000 on the \$25 million working capital line of credit as of June 30, 2011. The \$200 million line of credit has an option for a one-year extension at the Company's request.
- (3)

The fair value of the Company's variable rate debt is estimated by discounting expected cash flows at current market rates.

As the table above incorporates only those exposures that existed as of June 30, 2011, it does not consider those exposures or positions that could arise after that date. If the weighted average interest rate on the variable rate bank debt as shown above changes by 10% or approximately 10 basis points, interest expense and cash flows would increase or decrease by approximately \$113,000 annually.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "will," "anticipates," "expects," "believes," "intends," "plans," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that the Company expects or anticipates will occur in the future, including statements relating to rent and occupancy growth, development activity, the acquisition or sale of properties, general conditions in the geographic areas where the Company operates and the availability of capital, are forward-looking statements. Forward-looking statements are inherently subject to known and unknown risks and uncertainties, many of which the Company cannot predict, including, without limitation: changes in general economic conditions; the extent of tenant defaults or of any early lease terminations; the Company's ability to lease or re-lease space at current or anticipated rents; the availability of financing; changes in the supply of and demand for industrial/warehouse properties; increases in interest rate levels; increases in operating costs; natural disasters, terrorism, riots and acts of war, and the Company's ability to obtain adequate insurance; changes in governmental regulation, tax rates and similar matters; and other risks associated with the development and acquisition of properties, including risks that development projects may not be completed on schedule, development or operating costs may be greater than anticipated or acquisitions may not close as scheduled, and those additional factors discussed under "Item 1A. Risk Factors" in Part II of this report and in the Company's Annual Report on Form 10-K. Although the Company believes the expectations reflected in the forward-looking statements are based upon reasonable assumptions at the time made, the Company can give no assurance that such expectations will be achieved. The Company assumes no obligation whatsoever to publicly update or revise any forward-looking statements. See also the information contained in the Company's reports filed or to be filed from time to time with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

ITEM 4. CONTROLS AND PROCEDURES.

(i) Disclosure Controls and Procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15) as of June 30, 2011. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

(ii) Changes in Internal Control Over Financial Reporting.

There was no change in the Company's internal control over financial reporting during the Company's second fiscal quarter ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION.

ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors disclosed in EastGroup's Form 10-K for the year ended December 31, 2010. For a full description of these risk factors, please refer to "Item 1A. Risk Factors" in the 2010 Annual Report on Form 10-K.

ITEM 6. EXHIBITS.

(a) Form 10-Q Exhibits:

(31) Rule 13a-14(a)/15d-14(a) Certifications (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

- (a) David H. Hoster II, Chief Executive Officer
- (b) N. Keith McKey, Chief Financial Officer

(32) Section 1350 Certifications (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

- (a) David H. Hoster II, Chief Executive Officer
- (b) N. Keith McKey, Chief Financial Officer

(101) XBRL Interactive Data file will be filed by amendment to this Form 10-Q within 30 days of the filing date of this Form 10-Q, as permitted by Rule 405(a)(2) of Regulation S-T.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 25, 2011

EASTGROUP PROPERTIES,
INC.

/s/ BRUCE CORKERN
Bruce Corkern, CPA
Senior Vice President,
Controller and
Chief Accounting Officer

/s/ N. KEITH MCKEY
N. Keith McKey, CPA
Executive Vice President,
Chief Financial Officer,
Treasurer and Secretary

