

FORM 10-Q

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

FOR THE QUARTER ENDED JUNE 30, 2001

COMMISSION FILE NUMBER 1-7094

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.)

300 ONE JACKSON PLACE
188 EAST CAPITOL STREET
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 ()

The number of shares of common stock, \$.0001 par value, outstanding as of August 10, 2001 was 15,880,777.

EASTGROUP PROPERTIES, INC.
FORM 10-Q
TABLE OF CONTENTS
FOR THE QUARTER ENDED JUNE 30, 2001

	<u>Pages</u>
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Consolidated balance sheets, June 30, 2001 (unaudited) and December 31, 2000	3
Consolidated statements of income for the three and six months ended June 30, 2001 and 2000 (unaudited)	4
Consolidated statement of changes in stockholders' equity for the six months ended June 30, 2001 (unaudited)	5
Consolidated statements of cash flows for the six months ended June 30, 2001 and 2000 (unaudited)	6
Notes to consolidated financial statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
PART II. OTHER INFORMATION	
Item 4. Submission of Matters to a Vote of Security Holders	18
SIGNATURES	
Authorized signatures	19

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

	June 30, 2001 (Unaudited)	December 31, 2000
ASSETS		
Real estate properties:		
Industrial	\$ 667,623	630,860
Industrial development	38,995	37,193
Other	7,069	-
	713,687	668,053
Less accumulated depreciation	(79,486)	(66,492)
	634,201	601,561
Real estate held for sale	3,587	26,602
Less accumulated depreciation	(310)	(3,628)
	3,277	22,974
Mortgage loans	5,120	9,191
Investment in real estate investment trusts	8,189	8,068
Cash	2,027	2,861
Other assets	24,349	21,550
TOTAL ASSETS	\$ 677,163	666,205
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 207,466	168,709
Notes payable to banks	74,811	102,000
Accounts payable & accrued expenses	13,435	13,792
Other liabilities	5,102	4,615
	300,814	289,116
Minority interest in joint ventures	1,717	1,697
	1,717	1,697
 STOCKHOLDERS' EQUITY		
Series A 9.00% Cumulative Redeemable Preferred Shares and additional paid-in capital; \$.0001 par value; 1,725,000 shares authorized and issued; stated liquidation preference of \$43,125	41,357	41,357
Series B 8.75% Cumulative Convertible Preferred Shares and additional paid-in capital; \$.0001 par value; 2,800,000 shares authorized and issued; stated liquidation preference of \$70,000	67,178	67,178
Series C Preferred Shares; \$.0001 par value; 600,000 shares authorized; no shares issued	-	-
Common shares; \$.0001 par value; 64,875,000 shares authorized; 15,878,777 shares issued at June 30, 2001 and 15,849,318 at December 31, 2000	2	2
Excess shares; \$.0001 par value; 30,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital on common shares	239,500	238,910
Undistributed earnings	26,862	28,185
Accumulated other comprehensive income	2,882	3,104
Unearned compensation	(3,149)	(3,344)
	374,632	375,392
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 677,163	666,205

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
REVENUES				
Income from real estate operations	\$ 24,862	23,053	49,307	45,035
Interest:				
Mortgage loans	135	185	244	383
Other interest	466	76	486	103
Gain on sale of securities	706	-	706	555
Other	188	292	388	671
	<u>26,357</u>	<u>23,606</u>	<u>51,131</u>	<u>46,747</u>
EXPENSES				
Operating expenses from real estate operations	6,079	5,325	12,099	10,521
Interest	4,623	4,585	9,132	8,719
Depreciation and amortization	6,676	5,911	12,920	11,440
General and administrative	1,179	1,269	2,282	2,488
Minority interest in joint ventures	89	121	174	220
	<u>18,646</u>	<u>17,211</u>	<u>36,607</u>	<u>33,388</u>
INCOME BEFORE GAIN ON REAL ESTATE INVESTMENTS	7,711	6,395	14,524	13,359
Gain on real estate investments	<u>3,455</u>	<u>620</u>	<u>3,455</u>	<u>621</u>
NET INCOME	11,166	7,015	17,979	13,980
Preferred dividends-Series A	970	970	1,940	1,940
Preferred dividends-Series B	<u>1,532</u>	<u>1,532</u>	<u>3,064</u>	<u>3,064</u>
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	<u>\$ 8,664</u>	<u>4,513</u>	<u>12,975</u>	<u>8,976</u>
BASIC PER SHARE DATA				
Net income available to common stockholders	<u>\$ 0.55</u>	<u>0.29</u>	<u>0.83</u>	<u>0.58</u>
Weighted average shares outstanding	<u>15,692</u>	<u>15,624</u>	<u>15,682</u>	<u>15,597</u>
DILUTED PER SHARE DATA				
Net income available to common stockholders	<u>\$ 0.53</u>	<u>0.29</u>	<u>0.81</u>	<u>0.57</u>
Weighted average shares outstanding	<u>19,208</u>	<u>15,785</u>	<u>16,028</u>	<u>15,760</u>

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Additional Paid-In Capital	Unearned Compensation	Undistributed Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, DECEMBER 31, 2000	\$ 108,535	2	238,910	(3,344)	28,185	3,104	375,392
Comprehensive income							
Net income	-	-	-	-	17,979	-	17,979
Net unrealized change in investment securities	-	-	-	-	-	(222)	(222)
Total comprehensive income							17,757
Cash dividends declared-common, \$.90 per share	-	-	-	-	(14,298)	-	(14,298)
Preferred stock dividends declared	-	-	-	-	(5,004)	-	(5,004)
Issuance of 8,204 shares of common stock, incentive compensation	-	-	179	-	-	-	179
Issuance of 7,830 shares of common stock, dividend reinvestment plan	-	-	179	-	-	-	179
Issuance of 13,925 shares of common stock, exercise options	-	-	242	-	-	-	242
Forfeiture of 500 shares of common stock, incentive restricted stock	-	-	(10)	10	-	-	-
Amortization of unearned compensation, incentive restricted stock	-	-	-	185	-	-	185
BALANCE, JUNE 30, 2001	\$ 108,535	2	239,500	(3,149)	26,862	2,882	374,632

See accompanying notes to consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2001	2000
OPERATING ACTIVITIES:		
Net income	\$ 17,979	13,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,920	11,440
Gain on real estate investments, net	(3,455)	(621)
Gain on real estate investment trust shares	(706)	(555)
Amortization of unearned compensation	185	-
Minority interest depreciation and amortization	(81)	(78)
Changes in operating assets and liabilities:		
Accrued income and other assets	(1,478)	(511)
Accounts payable, accrued expenses and prepaid rent	729	2,100
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,093	25,755
INVESTING ACTIVITIES:		
Payments on mortgage loans receivable	4,990	2,158
Advances on mortgage loans receivable	(919)	(494)
Proceeds from sale of real estate investments	7,832	2,642
Real estate improvements	(3,011)	(6,046)
Real estate development	(16,262)	(18,242)
Purchases of real estate	(10,148)	(7,347)
Purchases of real estate investment trust shares	(2,930)	-
Proceeds from sale of real estate investment trust shares	3,293	5,826
Changes in other assets and other liabilities	(1,984)	(1,970)
NET CASH USED IN INVESTING ACTIVITIES	(19,139)	(23,473)
FINANCING ACTIVITIES:		
Proceeds from bank borrowings	68,824	92,849
Principal payments on bank borrowings	(96,013)	(76,002)
Proceeds from mortgage notes payable	45,000	11,500
Principal payments on mortgage notes payable	(5,865)	(10,286)
Debt issuance costs	(472)	(76)
Distributions paid to stockholders	(19,125)	(16,872)
Purchase of limited partnership units	-	(335)
Purchases of shares of common stock	-	(430)
Proceeds from exercise of stock options	242	1,161
Proceeds from dividend reinvestment plan	179	145
Other	(558)	(2,903)
NET CASH USED IN FINANCING ACTIVITIES	(7,788)	(1,249)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(834)	1,033
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,861	2,657
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,027	3,690
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amount capitalized	\$ 8,583	8,555
Debt assumed by buyer of real estate	378	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 2000 annual report and the notes thereto.

(2) SUBSEQUENT EVENTS

EastGroup is currently under contract to sell West Palm I (14,000 square feet) in West Palm Beach, Florida for approximately \$1.5 million. This transaction is expected to generate a small gain for financial reporting purposes.

EastGroup is also under contract to purchase Southpark Industrial (70,000 square feet) in Chandler, Arizona for approximately \$3.7 million and four parcels of land (28 acres) in Florida and Mississippi for approximately \$4.4 million. A portion of the land purchases will be funded with Section 1031 tax deferred cash escrows.

(3) REAL ESTATE HELD FOR SALE

Real estate properties that are currently offered for sale or are under contract to sell have been shown separately on the consolidated balance sheets as "real estate held for sale." Such assets are carried at the lower of current carrying amount or fair market value less estimated selling costs and are not depreciated while they are held for sale. At June 30, 2001, the Company had two industrial properties and one parcel of land held for sale. There can be no assurances that such properties will be sold.

(4) COMPREHENSIVE INCOME

The Company applies Statement of Financial Accounting Standards (SFAS) No. 130 which requires the disclosure of comprehensive income. The Company's comprehensive income includes, in addition to net income, other income consisting of unrealized gains and losses on the Company's investment in real estate investment trust (REIT) shares, which is recorded directly into a separate section of stockholders' equity on the balance sheet.

	<u>(In thousands)</u>
Other comprehensive income:	
Unrealized holding gains during the period	\$ 484
Less reclassification adjustment for gains included in net income	(706)
Net unrealized change in investment securities	<u>\$ (222)</u>

(5) EARNINGS PER SHARE

The Company applies SFAS No. 128 "Earnings Per Share," which requires companies to present basic earnings per share (EPS) and diluted EPS.

Basic EPS represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. The Company's basic EPS is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding.

Diluted EPS represents the amount of earnings for the period available to each share of common stock outstanding during the 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's diluted EPS is calculated by totaling net income available to common stockholders plus dividends on dilutive convertible preferred shares and limited partnership (LP) distributions and dividing it by the weighted average number of common shares outstanding plus the dilutive effect of stock options related to outstanding employee stock options, LP units, nonvested restricted stock and convertible preferred stock, had the options or conversions been exercised. Reconciliation of the numerators and denominators in the basic and diluted EPS computations is as follows:

Reconciliation of Numerators and Denominators

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
	<i>(In thousands)</i>			
Basic EPS Computation				
Numerator-net income available to common stockholders	\$ 8,664	4,513	12,975	8,976
Denominator-weighted average shares outstanding	15,692	15,624	15,682	15,597
Diluted EPS Computation				
Numerator-net income available to common stockholders plus convertible preferred stock dividends (\$1,532 for the three months ended June 30, 2001) and limited partnership distributions (\$6 and \$18 for the three months and six months ended June 30, 2000)	\$ 10,196	4,519	12,975	8,994
Denominator:				
Weighted average shares outstanding	15,692	15,624	15,682	15,597
Common stock options	153	143	165	138
Nonvested restricted stock	181	-	181	-
Limited partnership units	-	18	-	25
Convertible preferred stock	3,182	-	-	-
Total Shares	19,208	15,785	16,028	15,760

The Series B Preferred Stock, which is convertible into common stock at a conversion price of \$22.00 per share, was not included in the computation of diluted earnings per share for the quarter ended June 30, 2000 and the six months ended June 30, 2001 and 2000 due to its antidilutive effect.

(6) BUSINESS SEGMENTS

The Company's reportable segments consist of industrial properties and an "other" category that includes office buildings and other real estate. The Company's chief decision makers use two primary measures of operating results in making decisions, such as allocating resources: property net operating income (PNOI), defined as real estate operating revenues less real estate operating expenses (before interest expense and depreciation), and funds from operations (FFO), defined as net income (loss) (computed in accordance with 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 believes that FFO is an appropriate measure to evaluate the Company's performance and also uses FFO as a comparative measure to other equity real estate investment trusts. FFO is not considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flows from operating activities (determined in accordance with GAAP) or as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make distributions.

The table below presents on a comparative basis for the three months and six months ended June 30, 2001 and 2000 reported PNOI by operating segment, followed by reconciliations of PNOI to FFO and FFO to net income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	<i>(In thousands)</i>			
PROPERTY REVENUES:				
Industrial	\$ 24,497	22,115	48,583	43,169
Other	365	938	724	1,866
	<u>24,862</u>	<u>23,053</u>	<u>49,307</u>	<u>45,035</u>
PROPERTY EXPENSES:				
Industrial	(5,974)	(4,984)	(11,890)	(9,869)
Other	(105)	(341)	(209)	(652)
	<u>(6,079)</u>	<u>(5,325)</u>	<u>(12,099)</u>	<u>(10,521)</u>
PROPERTY NET OPERATING INCOME:				
Industrial	18,523	17,131	36,693	33,300
Other	260	597	515	1,214
TOTAL PROPERTY NET OPERATING INCOME	<u>18,783</u>	<u>17,728</u>	<u>37,208</u>	<u>34,514</u>
Gain on securities	706	-	706	555
Gain on nondepreciable real estate investments	-	620	-	620
Other income	789	553	1,118	1,157
Interest expense	(4,623)	(4,585)	(9,132)	(8,719)
General and administrative expense	(1,179)	(1,269)	(2,282)	(2,488)
Minority interest in earnings	(130)	(160)	(255)	(298)
Dividends on Series A preferred shares	(970)	(970)	(1,940)	(1,940)
Limited partnership unit distributions	-	6	-	18
	<u>13,376</u>	<u>11,923</u>	<u>25,423</u>	<u>23,419</u>
FUNDS FROM OPERATIONS				
Depreciation and amortization	(6,676)	(5,911)	(12,920)	(11,440)
Share of joint venture depreciation and amortization	41	39	81	78
Gain on depreciable real estate investments	3,455	-	3,455	1
Limited partnership unit distributions	-	(6)	-	(18)
Dividends on Series B convertible preferred shares	(1,532)	(1,532)	(3,064)	(3,064)
	<u>8,664</u>	<u>4,513</u>	<u>12,975</u>	<u>8,976</u>
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS				
Dividends on preferred shares	2,502	2,502	5,004	5,004
	<u>11,166</u>	<u>7,015</u>	<u>17,979</u>	<u>13,980</u>
NET INCOME	<u>\$ 11,166</u>	<u>7,015</u>	<u>17,979</u>	<u>13,980</u>

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

FINANCIAL CONDITION

(Comments are for the balance sheet dated June 30, 2001 compared to December 31, 2000.)

Assets of EastGroup were \$677,163,000 at June 30, 2001, an increase of \$10,958,000 from December 31, 2000. Liabilities (excluding minority interests) increased \$11,698,000 to \$300,814,000 and stockholders' equity decreased \$760,000 to \$374,632,000 during the same period. Book value per common share decreased from \$16.55 at December 31, 2000 to \$16.47 at June 30, 2001. The paragraphs that follow explain these changes in greater detail.

Industrial properties increased \$36,763,000 during the six months ended June 30, 2001. This increase was primarily due to the acquisition of two industrial properties and the remaining 20% minority interest in Wiegman Associates for a total of \$10,148,000, as detailed below; the transfer of four properties from development with total costs of \$14,445,000; the transfer of two properties from the category "held for sale" with total costs of \$13,519,000 and capital improvements of \$2,988,000 made on existing and acquired properties. These increases were offset by the transfer of three properties to the category "held for sale" with costs of \$4,220,000.

Industrial Properties Acquired in 2001	Location	Size	Date Acquired	Cost (In thousands)
World Houston 10	Houston, Texas	107,000 sq. ft.	01-04-01	\$ 5,712
North Stemmons	Dallas, Texas	123,000 sq. ft.	03-15-01	3,883
Wiegman Associates (20% Interest)	Hayward, California	262,000 sq. ft.	05-30-01	553
Total Industrial Acquisitions				\$10,148

Industrial development increased \$1,802,000 during the six months ended June 30, 2001. This increase resulted from year-to-date development costs of \$16,247,000 on existing and completed development properties, offset by development properties transferred to industrial properties with costs of \$14,445,000, as detailed below.

Industrial Development

	Size at Completion	Costs Incurred		Estimated Total Costs (1)
		For the 6 Months Ended 6/30/01	Cumulative as of 6/30/01	
	<i>(Square feet)</i>	<i>(In thousands)</i>		
<u>Lease-Up:</u>				
Palm River North I & III Tampa, Florida	116,000	\$ 542	5,470	6,290
Westlake II Tampa, Florida	70,000	64	3,407	4,270
Beach Commerce Center Jacksonville, Florida	46,000	284	2,313	2,800
Interstate Commons II Phoenix, Arizona	59,000	475	2,684	2,900
Kyrene II Tempe, Arizona	60,000	1,108	2,917	3,710
Walden Distribution Center I Tampa, Florida	90,000	2,810	3,589	4,240

Techway Southwest I Houston, Texas	126,000	1,832	3,720	5,040
Total Lease-up	567,000	7,115	24,100	29,250

Under Construction:

World Houston XIV Houston, Texas	77,000	482	482	3,575
Americas 10 Business Center I El Paso, Texas	97,000	695	695	3,320
Sunport Center III Orlando, Florida	66,000	844	844	4,000
World Houston XIII Houston, Texas	51,000	285	285	2,795
Total Under Construction	291,000	2,306	2,306	13,690

Prospective Development

(Principally Land):

Phoenix, Arizona	104,000	905	1,142	5,700
Tucson, Arizona	70,000	17	316	3,500
Tampa, Florida	230,000	218	2,053	9,200
Orlando, Florida	248,000	778	2,502	14,900
El Paso, Texas	251,000	1,417	1,417	7,580
Houston, Texas	989,000	(433)	5,159	38,930
Total Prospective Development	1,892,000	2,902	12,589	79,810
	2,750,000	\$12,323	38,995	122,750

**Completed Development and
Transferred to Industrial
Properties During the Six
Months Ended June 30, 2001:**

Sunport Center II Orlando, Florida	60,000	\$ 3,106	3,868
World Houston XI Houston, Texas	129,000	681	4,402
Glenmont II Houston, Texas	104,000	233	3,149
Sunport Center I Orlando, Florida	56,000	(96)	3,026
Total Transferred to Industrial	349,000	\$ 3,924	14,445

(1) The information provided above includes forward-looking data based on current construction schedules, the status of lease negotiations with potential tenants and other relevant factors currently available to the Company. There can be no assurance that any of these factors will not change or that any change will not affect the accuracy of such forward-looking data. Among the factors that could affect the accuracy of the forward-looking statements are weather or other natural occurrence, default or other failure of performance by contractors, increases in the price of construction materials or the unavailability of such materials, failure to obtain necessary permits or approvals from government entities, changes in local and/or national economic conditions, increased competition for tenants or other occurrences that could depress rental rates, and other factors not within the control of the Company.

Other real estate properties increased by \$7,069,000 as a result of the transfer of an office building from the category "held for sale."

Real estate held for sale decreased \$23,015,000 primarily due to the transfer of three properties from held for sale to real estate properties with total costs of \$20,588,000 and the sale of three properties with total costs of \$6,685,000. These decreases were offset by the transfer of three properties from the portfolio to real estate held for sale with total costs of \$4,220,000.

Accumulated depreciation on real estate properties and real estate held for sale increased \$9,676,000 due to depreciation expense of \$11,718,000, offset by the sale of three properties with total accumulated depreciation of \$2,042,000.

Mortgage loans receivable decreased \$4,071,000 during the first six months of 2001 as a result of repayments of \$4,990,000 that included the payoff of the World Houston 10 loan, offset by advances of \$919,000.

Investments in real estate investment trusts (REITs) increased from \$8,068,000 at December 31, 2000 to \$8,189,000 at June 30, 2001, primarily as a result of the purchase of real estate investment trust shares for \$2,930,000, offset by the sale of REIT shares with a cost basis of \$2,587,000. These amounts were further offset by unrealized holding losses of \$222,000.

Other assets increased \$2,799,000 during the six months ended June 30, 2001 compared to December 31, 2000 primarily as a result of net increases in receivables, unamortized leasing commissions and loan costs, and other prepaid assets. These increases were offset by a net decrease in cash escrows for Section 1031 tax deferred exchange transactions.

Mortgage notes payable increased \$38,757,000 during the six months ended June 30, 2001 primarily as a result of the closing of the Company's new \$45,000,000 nonrecourse mortgage loan on April 6, 2001. This note has an interest rate of 7.25%, a 25-year amortization and a 10-year maturity and is secured by eight properties in Dallas, Houston and El Paso. The proceeds of this note were used to pay down existing bank debt. This increase was offset by the payoff of the Northwest Point mortgage loan of \$3,829,000 in March, regularly scheduled principal payments of \$2,036,000 and the assumption of bonds payable of \$378,000 by the buyer of Nobel Business Center.

Notes payable to banks decreased \$27,189,000 as a result of borrowings of \$68,824,000 offset by payments of \$96,013,000. Bank debt was paid down with funds from the Company's new \$45 million nonrecourse mortgage loan as discussed above. The Company's credit facilities are described in greater detail under Liquidity and Capital Resources.

Accumulated other comprehensive income decreased \$222,000 as a result of unrealized holding gains of \$484,000 recorded in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," offset by realized gains of \$706,000 on REIT shares.

Unearned compensation on the incentive restricted stock compensation plan decreased \$195,000 for the six months ended June 30, 2001 as a result of amortization expense of \$185,000 and plan forfeitures of \$10,000.

Undistributed earnings decreased from \$28,185,000 at December 31, 2000 to \$26,862,000 at June 30, 2001 as a result of dividends on common and preferred stock of \$19,302,000 exceeding net income for financial reporting purposes of \$17,979,000.

RESULTS OF OPERATIONS

(Comments are for the three months and six months ended June 30, 2001 compared to the three months and six months ended June 30, 2000.)

Net income available to common stockholders for the three months and six months ended June 30, 2001 was \$8,664,000 (\$.55 per basic share and \$.53 per diluted share) and \$12,975,000 (\$.83 per basic share and \$.81 per diluted share), compared to net income available to common stockholders for the three months and six months ended June 30, 2000 of \$4,513,000 (\$.29 per basic and diluted share) and \$8,976,000 (\$.58 per

basic share and \$.57 per diluted share). Income before gain on real estate investments was \$7,711,000 and \$14,524,000 for the three months and six months ended June 30, 2001, compared to \$6,395,000 and \$13,359,000 for the three months and six months ended June 30, 2000. Gain on real estate investments was \$3,455,000 for the three months and six months ended June 30, 2001, compared to \$620,000 and \$621,000 for the three months and six months ended June 30, 2000. The paragraphs that follow describe the results of operations in greater detail.

Property net operating income (PNOI) from real estate properties, defined as income from real estate operations less property operating expenses (before interest expense and depreciation), increased by \$1,055,000 or 6.0% for the three months ended June 30, 2001 compared to the three months ended June 30, 2000. For the six months ended June 30, 2001, PNOI increased by \$2,694,000 or 7.8% compared to the six months ended June 30, 2000. PNOI by property type and percentage leased for industrial were as follows:

Property Net Operating Income

	Three Months Ended		Six Months Ended		Percent Leased	
	June 30,		June 30,		6-30-01	6-30-00
	2001	2000	2001	2000		
	<i>(In thousands)</i>					
Industrial	\$ 18,523	17,131	36,693	33,300	94.6%	97.3%
Other	260	597	515	1,214		
Total PNOI	<u>\$ 18,783</u>	<u>17,728</u>	<u>37,208</u>	<u>34,514</u>		

PNOI from industrial properties increased \$1,392,000 and \$3,393,000 for the three months and six months ended June 30, 2001, compared to June 30, 2000, primarily due to acquisitions, rental rate increases and development properties that achieved stabilized operations in 2001 and 2000. PNOI from industrial properties held throughout the three months and six months ended June 30, 2001 compared to the same periods in 2000 was basically flat for both periods in 2001 due primarily to increased vacancy levels.

PNOI from other properties decreased \$337,000 and \$699,000 for the three months and six months ended June 30, 2001 compared to June 30, 2000. These decreases were primarily the result of the sale of the La Vista Crossing Apartments in December 2000.

Other interest income increased \$390,000 and \$383,000 for the three months and six months ended June 30, 2001 compared to June 30, 2000. These increases were primarily the result of interest received from the final accounting of an escrow account established for the redemption of shares in the Company's 1998 acquisition of Meridian Point Realty Trust VIII.

Gain on sale of securities increased \$706,000 and \$151,000 for the three months and six months ended June 30, 2001, compared to June 30, 2000 as a result of gains of \$706,000 realized on the sale of REIT shares and on liquidating distributions from Pacific Gulf Properties (PAG) in 2001 compared to gains of \$555,000 on liquidating distributions from Franklin Select Realty Trust in 2000.

Bank interest expense (excluding amortization of loan costs) decreased \$908,000 from \$2,126,000 for the three months ended June 30, 2000 to \$1,218,000 for the same three months in 2001. Bank interest expense (excluding amortization of loan costs) decreased \$852,000 from \$3,945,000 for the six months ended June 30, 2000 to \$3,093,000 for the six months ended June 30, 2001. Amortization of loan costs was \$66,000 and \$132,000 for both of the three months and six months ended June 30, 2001 and 2000. Average bank borrowings were \$78,035,000 and \$91,904,000 for the three months and six months ended June 30, 2001 compared to \$106,045,000 and \$102,349,000 for the same periods of 2000. Average bank interest rates were 6.25% and 6.71% for the three months and six months ended June 30, 2001 compared to 8.02% and 7.71% for the same periods of 2000. Interest costs incurred during the period of construction of real

estate properties are capitalized and offset against the bank interest expense. The interest costs capitalized on real estate properties for the three months and six months ended June 30, 2001 were \$609,000 and \$1,284,000 compared to \$388,000 and \$1,032,000 for the three months and six months ended June 30, 2000.

Interest expense on real estate properties (excluding amortization of loan costs) increased \$1,152,000 from \$2,754,000 for the three months ended June 30, 2000 to \$3,906,000 for the three months ended June 30, 2001. Interest expense (excluding amortization of loan costs) increased \$1,493,000 from \$5,613,000 for the six months ended June 30, 2000 to \$7,106,000 for the six months ended June 30, 2001. Amortization of loan costs was \$42,000 and \$85,000 for the three months and six months ended June 30, 2001 and \$27,000 and \$61,000 for the three months and six months ended June 30, 2000. These increases were primarily the result of the issuance of two mortgage loans in 2000 and one mortgage loan in 2001, offset by the payoff of several smaller loans in 2000 and 2001.

Depreciation and amortization increased \$765,000 and \$1,480,000 for the three months and six months ended June 30, 2001 compared to 2000. This increase was primarily due to the industrial properties acquired and development properties that achieved stabilized operations in both 2000 and 2001. These increases were offset by the sales of several properties in 2000 and 2001 and the transfer of several properties to real estate held for sale (depreciation not taken on those properties held in the category "real estate held for sale").

A summary of gains on real estate investments for the six months ended June 30, 2001 and 2000 is detailed below.

Gains on Real Estate Investments

	Basis	Net Sales Price	Recognized Gain
	<i>(In thousands)</i>		
2001			
Real estate properties:			
Nobel Business Center	\$ 2,113	5,250	3,137
West Palm II	1,274	1,350	76
109 th Street Distribution Center	990	1,232	242
	<u>\$ 4,377</u>	<u>7,832</u>	<u>3,455</u>
2000			
Real estate properties:			
LeTourneau Center of Commerce	\$ 1,592	1,593	1
Estelle land	429	1,049	620
	<u>\$ 2,021</u>	<u>2,642</u>	<u>621</u>

NAREIT has recommended supplemental disclosures concerning straight-line rent, capital expenditures and leasing costs. Straight-line rent for the three months and six months ended June 30, 2001 was \$442,000 and \$966,000 compared to \$343,000 and \$766,000 for the same periods in 2000. Capital

expenditures for the six months ended June 30, 2001 (by category) and for the six months ended June 30, 2000 are as follows:

Capital Expenditures

	2001			2000 Total
	Industrial	Other	Total	
	<i>(In thousands)</i>			
Upgrade on Acquisitions	\$ 438	-	438	2,814
Tenant improvements:				
New Tenants	1,089	-	1,089	1,204
New Tenants (first generation)	46	-	46	521
Renewal Tenants	358	-	358	487
Other	1,048	32	1,080	1,020
Total capital expenditures	<u>\$ 2,979</u>	<u>32</u>	<u>3,011</u>	<u>6,046</u>

The Company's leasing costs are capitalized and included in other assets. The costs are amortized over the lives of the leases and are included in depreciation and amortization expense. A summary of these costs for the six months ended June 30, 2001 (by category) and for the six months ended June 30, 2000 is as follows:

Capitalized Leasing Costs

	2001				2000 Total
	Industrial	Other	Industrial Development	Total	
	<i>(In thousands)</i>				
Capitalized leasing costs:					
New Tenants	\$ 478	-	-	478	287
New Tenants (first generation)	(39)	-	711	672	1,350
Renewal Tenants	584	38	-	622	563
Total capitalized leasing costs	<u>\$ 1,023</u>	<u>38</u>	<u>711</u>	<u>1,772</u>	<u>2,200</u>
Amortization of leasing costs				<u>\$ 1,172</u>	<u>989</u>

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$26,093,000 for the six months ended June 30, 2001. Other sources of cash were primarily from bank borrowings, proceeds from mortgage notes payable, sales of real estate investments, collections on mortgage loans receivable and liquidation of real estate investment trust shares. The Company distributed \$14,121,000 in common and \$5,004,000 in preferred stock dividends. Other primary uses of cash were for bank debt payments, construction and development of properties, purchases of real estate investments, mortgage note payments, capital improvements at the various properties, purchase of REIT shares and advances on mortgage loans receivable. Total debt at June 30, 2001 and 2000 was as follows:

	As of June 30,	
	2001	2000
	<i>(In thousands)</i>	
Mortgage notes payable - fixed rate	\$ 207,466	149,879
Bank notes payable - floating rate	74,811	111,847
Total debt	<u>\$ 282,277</u>	<u>261,726</u>

The Company has a three-year \$150,000,000 unsecured revolving credit facility with a group of ten banks that matures in January 2002. The interest rate is based on the Eurodollar rate plus 1.25% and was 5.25% on \$47,000,000 and 6.75% on \$25,000,000 at June 30, 2001. An unused facility fee of .25% is also assessed on this note.

The Company has a one-year \$10,000,000 unsecured revolving credit facility with Chase Bank of Texas that matures in January 2002. The interest rate is based on Chase Bank of Texas, National Association's prime rate less .75% and was 6.00% on \$2,811,000 at June 30, 2001.

The Company has a \$15,000,000 unsecured discretionary line of credit with Chase Bank of Texas. The interest rate and maturity date for each loan proceeds are negotiated at the time of any advances. At June 30, 2001, the outstanding balance for this loan was zero.

EastGroup's Board of Directors has authorized the repurchase of up to 1,500,000 shares of its outstanding common stock. The shares may be purchased from time to time in the open market or in privately negotiated transactions. The Company did not repurchase any shares during the six months ended June 30, 2001. Since September 30, 1998, a total of 827,700 shares have been repurchased for \$14,170,000 (an average of \$17.12 per share) with 672,300 shares still available for repurchase.

On June 20, 2000, Pacific Gulf Properties announced that it entered into an agreement to sell all of its industrial properties and to market its multi-family assets with the disposition of its senior housing assets to be determined at a future date. EastGroup owns 487,100 shares of PAG. In December 2000, upon receipt of the initial liquidating distribution of \$22.00 per PAG share, the Company reduced its basis in PAG shares to zero and recorded a gain of \$807,000. During second quarter 2001, the Company received additional liquidating distributions of \$1.15 per PAG share and recorded a gain of \$560,000.

The Company anticipates that its current cash balance, operating cash flows, and borrowings under its lines of credit will be adequate for the Company's (i) operating and administrative expenses, (ii) normal repair and maintenance expenses at its properties, (iii) debt service obligations, (iv) distributions to stockholders, (v) capital improvements, (vi) purchases of properties, (vii) development, and (viii) common stock repurchases.

INFLATION

In the last five years, inflation has not had a significant impact on the Company because of the relatively low inflation rate in the Company's geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. In addition, the Company's leases typically have three to five year terms, which may enable the Company to replace existing leases with new leases at a higher base if rents on the existing leases are below the then-existing market rate.

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 interest rate risk management objective 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 several 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.

	Jul-Dec							Fair
	2001	2002	2003	2004	2005	Thereafter	Total	Value
Fixed rate debt (in thousands)	\$ 2,433	13,126	8,975	9,775	23,596	149,561	207,466	211,908
Weighted average interest rate	7.71%	7.57%	8.23%	8.12%	8.06%	7.48%	7.61%	
Variable rate debt (in thousands)	-	74,811	-	-	-	-	74,811	74,811
Weighted average interest rate	-	5.78%	-	-	-	-	5.78%	

As the table above incorporates only those exposures that exist as of June 30, 2001, it does not consider those exposures or positions that could arise after that date. The Company's ultimate economic impact with respect to interest rate fluctuations will depend on the exposures that arise during the period and interest rates. If the weighted average interest rate on the variable rate bank debt as shown above changes by 10% or approximately 58 basis points, interest expense and cash flows would increase or decrease by approximately \$434,000 annually.

FORWARD LOOKING STATEMENTS

In addition to historical information, certain sections of this Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as those pertaining to the Company's hopes, expectations, intentions, beliefs, strategies regarding the future, the anticipated performance of development and acquisition properties, capital resources, profitability and portfolio performance. Forward-looking statements involve numerous risks and uncertainties. The following factors, among others discussed herein, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: defaults or non-renewal of leases, increased interest rates and operating costs, failure to obtain necessary outside financing, difficulties in identifying properties to acquire and in effecting acquisitions, failure to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended, environmental uncertainties, risks related to natural disasters and the costs of insurance to protect from such disasters, financial market fluctuations, changes in real estate and zoning laws and increases in real property tax rates. The success of the Company also depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, population changes and those risk factors discussed elsewhere in this Form 10-Q. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements. See also the Company's reports to be filed from time to time with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

EASTGROUP PROPERTIES, INC.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 4, 2001, the Registrant held its Annual Meeting of Shareholders. At the Annual Meeting, D. Pike Aloian, Alexander G. Anagnos, H.C. Bailey, Jr., Fredric H. Gould, David H. Hoster II, David M. Osnos, John N. Palmer and Leland R. Speed were elected directors of the Registrant, each to serve until the 2002 Annual Meeting. The following is a summary of the voting for directors:

<u>Nominee</u>	<u>Vote For</u>	<u>Vote Withheld</u>
D. Pike Aloian	17,303,119	57,035
Alexander G. Anagnos	17,290,335	69,819
H.C. Bailey, Jr.	17,302,969	57,185
Fredric H. Gould	17,304,076	56,078
David H. Hoster II	16,359,328	1,000,826
David M. Osnos	17,251,647	108,507
John N. Palmer	17,297,428	62,726
Leland R. Speed	16,718,296	641,858

SIGNATURES

Pursuant to the requirements 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.

DATED: August 13, 2001

EASTGROUP PROPERTIES, INC.

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

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