EASTGROUP PROPERTIES INC
Form 10-Q
April 20, 2015

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 MARCH 31, 2015 COMMISSION FILE NUMBER 1-07094

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

MARYLAND	13-2711135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

190 EAST CAPITOL STREET SUITE 400 JACKSON, MISSISSIPPI	39201
(Address of principal executive offices)	(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):

Large Accelerated Filer (x) 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 (x)

The number of shares of common stock, $.0001 par value, outstanding as of April 17, 2015 was 32,303,532.

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EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES

FORM 10-Q

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

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Real estate properties	$1,917,885	1,894,973
Development	173,773	179,973
	2,091,658	2,074,946
Less accumulated depreciation	(612,630)	(600,526)
	1,479,028	1,474,420
Real estate assets held for sale	1,983	—
Unconsolidated investment	7,913	7,884
Cash	173	11
Other assets	92,182	93,509
TOTAL ASSETS	$1,581,279	1,575,824
LIABILITIES AND EQUITY		
LIABILITIES		
Secured debt	$390,646	453,776
Unsecured debt	455,000	380,000
Unsecured bank credit facilities	114,360	99,401
Accounts payable and accrued expenses	26,275	39,439
Other liabilities	30,191	27,593
Total Liabilities	1,016,472	1,000,209
EQUITY		
Stockholders' Equity:		
Common shares; $.0001 par value; 70,000,000 shares authorized; 32,280,007 shares issued and outstanding at March 31, 2015 and 32,232,587 at December 31, 2014	3	3
Excess shares; $.0001 par value; 30,000,000 shares authorized; no shares issued	—	—
Additional paid-in capital on common shares	874,752	874,335
Distributions in excess of earnings	(309,492)	(300,852)
Accumulated other comprehensive loss	(4,892)	(2,357)
Total Stockholders' Equity	560,371	571,129
Noncontrolling interest in joint ventures	4,436	4,486
Total Equity	564,807	575,615
TOTAL LIABILITIES AND EQUITY	$1,581,279	1,575,824

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Three Months Ended March 31,	
	2015	2014
REVENUES		
Income from real estate operations	$57,575	52,777
Other income	17	35
	57,592	52,812
EXPENSES		
Expenses from real estate operations	16,413	15,012
Depreciation and amortization	18,142	17,168
General and administrative	4,538	3,448
	39,093	35,628
OPERATING INCOME	18,499	17,184
OTHER INCOME (EXPENSE)		
Interest expense	(8,805)	(8,986)
Other	367	316
NET INCOME	10,061	8,514
Net income attributable to noncontrolling interest in joint ventures	(131)	(142)
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	9,930	8,372
Other comprehensive loss - cash flow hedges	(2,535)	(1,037)
TOTAL COMPREHENSIVE INCOME	$7,395	7,335
BASIC PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS		
Net income attributable to common stockholders	$0.31	0.27
Weighted average shares outstanding	32,032	30,806
DILUTED PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS		
Net income attributable to common stockholders	$0.31	0.27
Weighted average shares outstanding	32,109	30,886

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Common Stock	Additional Paid-In Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest in Joint Ventures	Total
BALANCE, DECEMBER 31, 2014	$3	874,335	(300,852)	(2,357)	4,486	575,615
Net income	—	—	9,930	—	131	10,061
Net unrealized change in fair value of interest rate swaps	—	—	—	(2,535)	—	(2,535)
Common dividends declared – $.57 per share	—	—	(18,570)	—	—	(18,570)
Stock-based compensation, net of forfeitures	—	2,343	—	—	—	2,343
Issuance of 1,688 shares of common stock, common stock offering, net of expenses	—	52	—	—	—	52
Issuance of 1,044 shares of common stock, dividend reinvestment plan	—	63	—	—	—	63
Withheld 32,409 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock	—	(2,041)	—	—	—	(2,041)
Distributions to noncontrolling interest	—	—	—	—	(181)	(181)
BALANCE, MARCH 31, 2015	$3	874,752	(309,492)	(4,892)	4,436	564,807

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Three Months Ended March 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	$10,061	8,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization from continuing operations	18,142	17,168
Stock-based compensation expense	2,043	1,677
Gain on sales of land and real estate investments	(123)	(95)
Changes in operating assets and liabilities:		
Accrued income and other assets	1,687	1,797
Accounts payable, accrued expenses and prepaid rent	(10,349)	(11,320)
Other	(40)	(101)
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,421	17,640
INVESTING ACTIVITIES		
Real estate development	(18,036)	(21,231)
Real estate improvements	(2,790)	(4,258)
Proceeds from sales of land and real estate investments	158	3,471
Repayments on mortgage loans receivable	29	39
Changes in accrued development costs	(2,257)	3,413
Changes in other assets and other liabilities	(3,550)	(2,354)
NET CASH USED IN INVESTING ACTIVITIES	(26,446)	(20,920)
FINANCING ACTIVITIES		
Proceeds from unsecured bank credit facilities	139,931	64,078
Repayments on unsecured bank credit facilities	(124,972)	(53,671)
Repayments on secured debt	(63,119)	(5,532)
Proceeds from unsecured debt	75,000	—
Debt issuance costs	(562)	(21)
Distributions paid to stockholders (not including dividends accrued on unvested restricted stock)	(18,984)	(17,322)
Proceeds from common stock offerings	52	19,602

Proceeds from dividend reinvestment plan	63	50
Other	(2,222)	(2,032)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,187	5,152
INCREASE IN CASH AND CASH EQUIVALENTS	162	1,872
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11	8
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$173	1,880
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amount capitalized of $1,179 and $1,110 for 2015 and 2014, respectively	$9,700	9,701

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 2014 annual report on Form 10-K and the notes thereto. Certain reclassifications have been made in the 2014 consolidated financial statements to conform to the 2015 presentation.

(2) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EastGroup Properties, Inc., its wholly owned subsidiaries and its investment in any joint ventures in which the Company has a controlling interest. At March 31, 2015 and December 31, 2014, 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 permitting 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 March 31, 2015 and December 31, 2014, the Company determined that no impairment charges on the Company's real estate properties were necessary.

Depreciation of buildings and other improvements is computed using the straight-line method over estimated useful lives of generally 40 years for buildings and 3 to 15 years for improvements. 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 $14,838,000 and $13,973,000 for the three months ended March 31, 2015 and 2014, respectively.

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

The Company's real estate properties and development at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
	(In thousands)	
Real estate properties:		
Land	$286,210	283,116
Buildings and building improvements	1,300,442	1,284,961
Tenant and other improvements	331,233	326,896
Development	173,773	179,973
	2,091,658	2,074,946
Less accumulated depreciation	(612,630)	(600,526)
	$1,479,028	1,474,420

(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. The internal costs are allocated to specific development properties based on construction activity. 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, including interest expense, property taxes and internal personnel 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. 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 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.

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 $1,144,000 and $1,212,000 for the three months ended March 31, 2015 and 2014, respectively. Amortization of above and below market leases increased rental income by $122,000 and $87,000 for the three months ended March 31, 2015 and 2014, respectively.

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

EastGroup did not acquire any operating properties during the three months ended March 31, 2015. During 2014, the Company acquired Ridge Creek Distribution Center III in Charlotte, North Carolina; Colorado Crossing Distribution Center in Austin, Texas; and Ramona Distribution Center in Chino, California. The Company purchased these properties for a total cost of $51,652,000, of which $47,477,000 was allocated to Real estate properties. The Company allocated $10,822,000 of the total purchase price to land using third party land valuations for the Charlotte, Austin and Chino markets. The market values are considered to be Level 3 inputs as defined by ASC 820, Fair Value Measurements and Disclosures (see Note 18 for additional information on ASC 820). Intangibles associated with the purchase of real estate were allocated as follows: $5,074,000 to in-place lease intangibles, $4,000 to above market leases (both included in Other Assets on the Consolidated Balance Sheets), and $903,000 to below market leases (included in Other Liabilities on the Consolidated Balance Sheets). These costs are amortized over the remaining lives of the associated leases in place at the time of acquisition. The Company paid cash of $48,805,000 for the properties and intangibles acquired, assumed a mortgage of $2,617,000 and recorded a premium of $230,000 to adjust the mortgage loan assumed to fair value.

EastGroup did not have any acquisition-related costs for the three months ended March 31, 2015 and 2014, 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 or other intangibles existed at March 31, 2015 and December 31, 2014.

(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. 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 April 2014, the FASB issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amended the requirements for reporting discontinued operations. Under ASU 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component or group of components meets the criteria to be classified as held for sale or when the component or group of components is disposed of by sale or other than by sale. In addition, this ASU requires additional disclosures about both discontinued operations and the disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements. The Company adopted the provisions of ASU 2014-08 as of January 1, 2014, and has applied the provisions prospectively.

EastGroup sold a small parcel of land in New Orleans during the first quarter of 2015 for gross proceeds of $170,000 and recognized a gain of $123,000.

As of March 31, 2015, the Company owned one operating property, Ambassador Row Warehouse, that was classified as held for sale on the March 31, 2015 Consolidated Balance Sheet. The 185,000 square foot property was sold in April 2015 for $5,250,000, generating an estimated gain of approximately $2.9 million that will be recognized by the Company in its second fiscal quarter of 2015.

During 2014, EastGroup sold five operating properties (442,000 square feet) for $21,381,000 and recognized gains of $9,188,000. In addition, the Company sold a small parcel of land in Orlando for $141,000 and recognized a gain of $98,000.

The results of operations and gains on sales for the properties sold or held for sale during the periods presented are reported in continuing operations on the Consolidated Statements of Income and Comprehensive Income. The gains on the sales are included in Other.

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

(8) OTHER ASSETS

A summary of the Company’s Other Assets follows:

	March 31, 2015	December 31, 2014
	(In thousands)	
Leasing costs (principally commissions)	$55,862	56,171
Accumulated amortization of leasing costs	(21,895)	(22,951)
Leasing costs (principally commissions), net of accumulated amortization	33,967	33,220
Straight-line rents receivable	25,542	25,013
Allowance for doubtful accounts on straight-line rents receivable	(321)	(102)
Straight-line rents receivable, net of allowance for doubtful accounts	25,221	24,911
Accounts receivable	3,285	4,459
Allowance for doubtful accounts on accounts receivable	(359)	(379)
Accounts receivable, net of allowance for doubtful accounts	2,926	4,080
Acquired in-place lease intangibles	18,595	20,118
Accumulated amortization of acquired in-place lease intangibles	(7,966)	(8,345)
Acquired in-place lease intangibles, net of accumulated amortization	10,629	11,773
Acquired above market lease intangibles	1,475	1,575
Accumulated amortization of acquired above market lease intangibles	(662)	(699)
Acquired above market lease intangibles, net of accumulated amortization	813	876
Loan costs	8,116	8,166
Accumulated amortization of loan costs	(4,167)	(4,454)
Loan costs, net of accumulated amortization	3,949	3,712
Mortgage loans receivable	4,962	4,991
Interest rate swap assets	94	812
Escrow deposits for 1031 exchange	—	698
Goodwill	990	990
Prepaid expenses and other assets	8,631	7,446
Total Other Assets	$92,182	93,509

(9) DEBT

Secured Debt decreased $63,130,000 during the three months ended March 31, 2015. The decrease primarily resulted from the repayment of a mortgage loan with a balance of $57,450,000, an interest rate of 5.5% and an original maturity date of April 5, 2015. In addition, the Company made regularly scheduled principal payments of $5,669,000 and recorded mortgage loan premium amortization of $11,000.

Unsecured Debt increased $75,000,000 during the three months ended March 31, 2015 as a result of the closing of a $75 million unsecured term loan in March 2015. The loan has a seven-year term and requires interest only payments.

It bears interest at the annual rate of LIBOR plus an applicable margin (currently 1.4%) based on the Company's senior unsecured long-term debt rating. The Company also entered into an interest rate swap agreement to convert the loan's LIBOR rate component to a fixed interest rate for the entire term of the loan providing a total effective fixed interest rate of 3.031%. See note 13 for additional information on the Company's interest rate swaps.

Unsecured Bank Credit Facilities increased $14,959,000 during the three months ended March 31, 2015.

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

Principal payments on long-term debt, including Secured Debt and Unsecured Debt (not including Unsecured Bank Credit Facilities), as of March 31, 2015 are as follows:

Years Ending December 31,	(In thousands)
Remainder of 2015	$39,244
2016	92,808
2017	58,239
2018	141,316
2019	130,568
2020 and beyond	383,471

(10) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	March 31, 2015	December 31, 2014
	(In thousands)	
Property taxes payable	$9,611	15,216
Development costs payable	5,663	7,920
Interest payable	2,291	3,500
Dividends payable on unvested restricted stock	1,682	2,096
Other payables and accrued expenses	7,028	10,707
Total Accounts Payable and Accrued Expenses	$26,275	39,439

(11) OTHER LIABILITIES

A summary of the Company's Other Liabilities follows:

	March 31, 2015	December 31, 2014
	(In thousands)	
Security deposits	$12,896	12,803
Prepaid rent and other deferred income	9,949	8,971
Acquired below-market lease intangibles	3,399	3,657
Accumulated amortization of below-market lease intangibles	(1,307)	(1,380)
Acquired below-market lease intangibles, net of accumulated amortization	2,092	2,277
Interest rate swap liabilities		