



# EASTGROUP

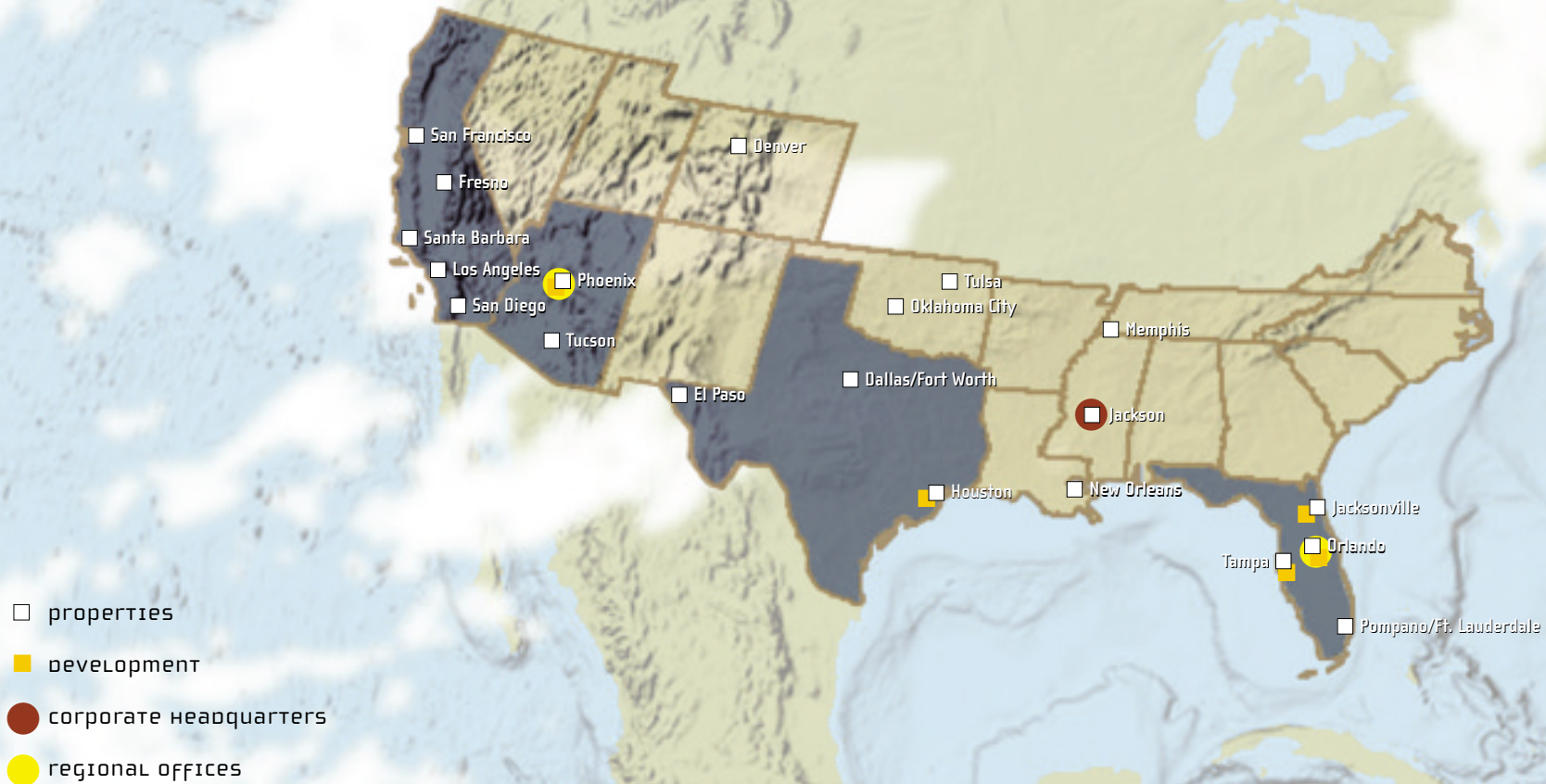
P R O P E R T I E S

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EASTGROUP CONTINUES TO FOCUS ITS INVESTMENTS IN THE MAJOR GROWTH MARKETS OF THE SUNBELT. ACCORDING TO 2000 CENSUS DATA, EASTGROUP'S FOUR MAJOR STATES OF CALIFORNIA, FLORIDA, TEXAS AND ARIZONA AVERAGED A TEN-YEAR POPULATION GROWTH OF 25.03%, FAR EXCEEDING THE NATIONAL AVERAGE OF 13.2% AND WILL GAIN SEVEN NEW CONGRESSIONAL DISTRICTS DUE TO THIS TREMENDOUS GROWTH.



## EASTgroup STRATEGY

Creating Shareholder Value through our three pronged growth strategy –

Targeting development in submarkets where EastGroup already has a presence;  
Recycling of capital through the sale of assets and reinvestment of the proceeds; and  
Internal growth of the Company's core portfolio.

Our investment approach reflects these recurring specific themes:

- Being where location sensitive tenants want to be.
- Competing on location rather than rent.
- Clustering of multi-tenant properties.
- Distribution – not storage.
- Focus on transportation features.
- Submarket driven.

FLEXIBLE quality ware-  
house/distribution  
space for tenants in  
the 10,000 to 50,000  
square foot range.

EASTgroup's mission is to  
maximize shareholder value  
by being the leading provider  
of highly  
functional  
and

## EASTgroup PROFILE

EastGroup Properties, Inc. is a self-administered equity real estate investment trust focused on the acquisition, ownership and development of industrial properties in major Sunbelt markets throughout the United States with a special emphasis in the states of California, Florida, Texas and Arizona. The Company's strategy for growth is based on property portfolio orientation toward premier distribution facilities located near major transportation centers. EastGroup's portfolio currently includes 17 million square feet with an additional 913,000 square feet of properties under development.

The Company, which was organized in 1969, is a Maryland corporation and adopted its present name when the current management assumed control in 1983. The Company completed secondary common share underwritings in 1994 and 1997, a direct placement of shares in 1997, a perpetual preferred share underwriting in 1998 and a direct placement of convertible preferred shares funded in 1998 and 1999. Eastover Corporation was merged into EastGroup in 1994 as were LNH REIT, Inc. and Copley Properties, Inc. in 1996 and Meridian Point Realty Trust VIII in 1998.

EastGroup's common shares and Series A preferred shares are traded on the New York Stock Exchange under the symbols "EGP" and "EGP PrA," respectively.





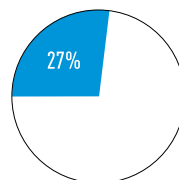


## ACCOMPLISHMENTS

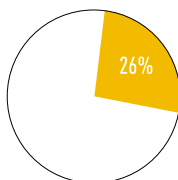
- **Funds from operations for 2000 grew** to \$47,790,000 from \$39,582,000 in 1999 and to \$2.52 per diluted share from \$2.28 per diluted share, an increase of 10.5%.
- **Total return to shareholders** was 30% and exceeded the NAREIT equity index for the sixth year in a row.
- **Assets grew** to 18,000,000 square feet owned and under development.
- **Development activity grew** to over 900,000 square feet with a total projected cost of \$45,190,000.
- **Asset sales of properties and securities** totaled \$34,504,000 and generated gains of \$10,925,000.

### INDUSTRIAL PORTFOLIO BY STATE (COST)

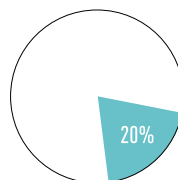
As of 2/28/01



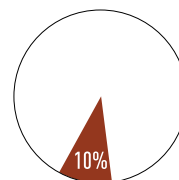
CALIFORNIA



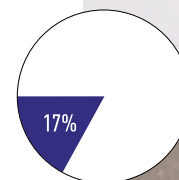
FLORIDA



TEXAS



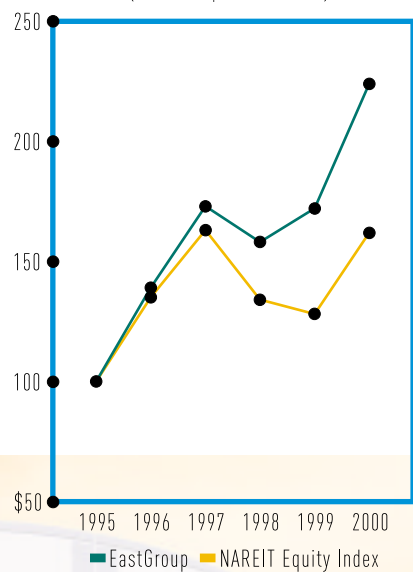
ARIZONA



OTHER



## TOTAL return performance (Value of \$100 Invested)



## FINANCIAL HIGHLIGHTS

	2000	1999	1998
<b>Operations (in thousands, for year ended December 31)</b>			
Revenues	\$ 98,103	86,236	76,728
Net income available to common shareholders	\$ 26,504	32,229	27,266
Funds from operations	\$ 47,790	39,582	33,854
<b>Property Portfolio (at year end)</b>			
Real estate properties, at cost (in thousands)	\$ 694,655	641,048	574,251
Total assets (in thousands)	\$ 666,205	632,151	567,548
Total debt (in thousands)	\$ 270,709	243,665	236,816
Stockholders' equity (in thousands)	\$ 375,392	369,312	316,024
Number of industrial properties	130	106	78
Square feet of industrial properties	16,837,000	15,925,000	14,054,000
<b>Common Share Data</b>			
Net income available to common shareholders per diluted share	\$ 1.68	1.99	1.66
Funds from operations per diluted share	\$ 2.52	2.28	2.06
Dividends per share	\$ 1.58	1.48	1.40
Shares outstanding (in thousands at year end)	15,849	15,556	16,308
Share price, at year end	\$ 22.38	18.50	18.44

◀ palm river north / tampa, florida



# LETTER TO SHAREHOLDERS

EastGroup's three pronged growth strategy is creating value for our shareholders. Our integrated focus on internal operations, new development and the recycling of capital generates sustained growth in both operating results and dividend distributions.

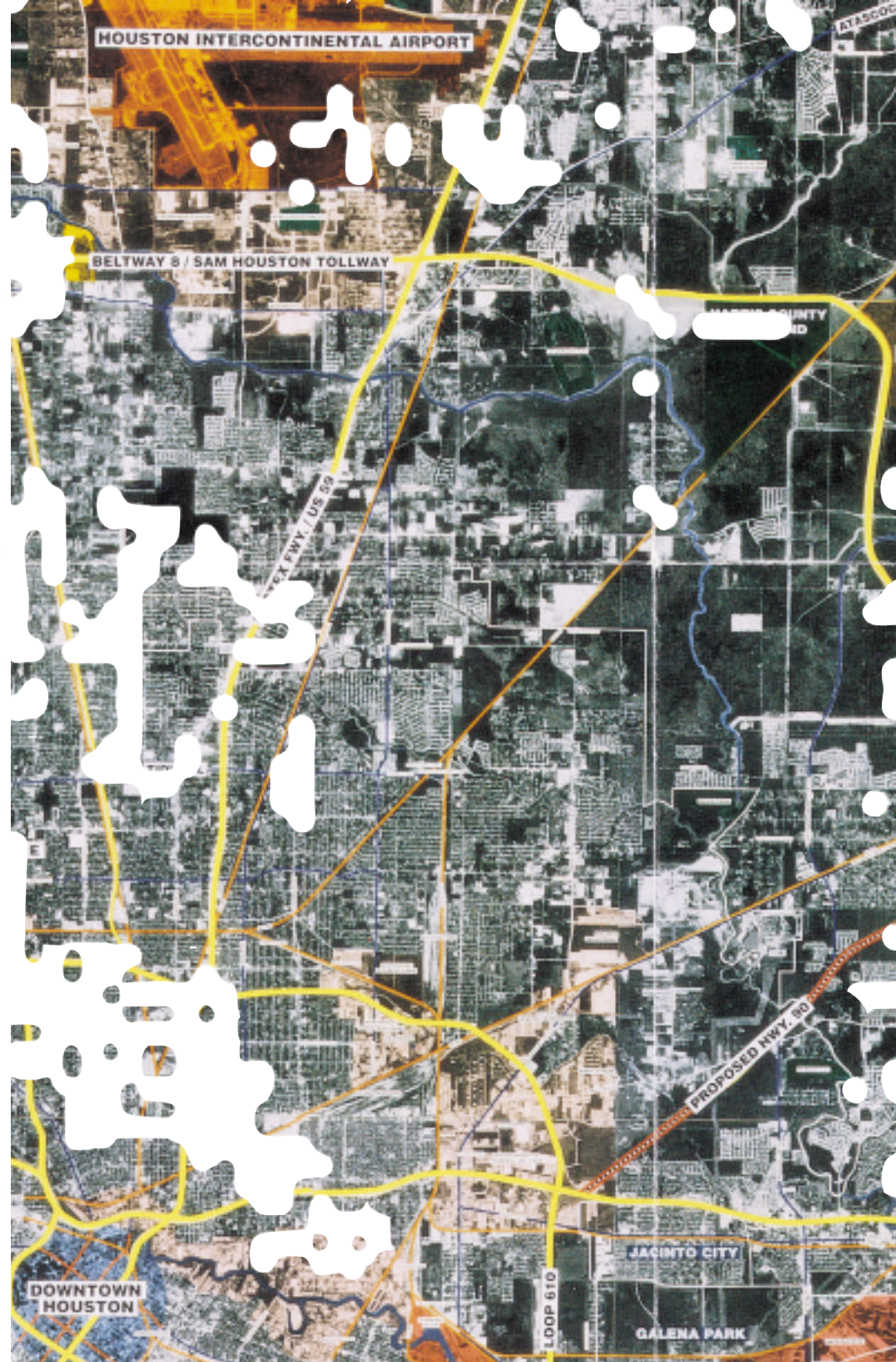
During a highly volatile period for the stock market, EastGroup shareholders experienced a total annual return (dividends plus share appreciation) of 30% in 2000. For the sixth consecutive year, EastGroup's shares outperformed both the National Association of Real Estate Investment Trusts Equity Index and the Morgan Stanley REIT Index on a total return basis. In addition, our total returns to shareholders for the past three, five and ten year periods were 8%, 18% and 22%, respectively.

## RESULTS

We generated a 20.7% increase in total funds from operations (FFO) during the past year, yet 2000 was a challenging and transitional

twelve months for EastGroup. For the year, we achieved double-digit FFO growth per diluted share of 10.5% including gains from the sale of land and securities but did not reach this level excluding them. Total FFO per share on a diluted basis for 2000 was \$2.52 per share, and, before gains, it was \$2.37 per share, a 3.9% increase over 1999.

These results were due to a number of factors. First and most importantly, the issuance of \$60 million of convertible preferred shares in late 1999 increased our number of potential common shares by almost 2.7 million shares, or 17%, diluting FFO on a per share basis. In addition, we lost several large tenants which adversely impacted revenues, and we had higher interest expense due to increased interest rates. Finally, we implemented a ten-year, restricted stock program for all employees with its first year cost being totally expensed in the fourth quarter.







HOUSTON CONSTRUCTION OF WORLD HOUSTON 11 (126,000 SQUARE FEET) WAS COMPLETED IN DECEMBER 2000.

WORLD HOUSTON  
INTERNATIONAL  
BUSINESS CENTER

BUILDING	SQUARE FEET
1	84,000
2	74,000
3	57,000
4	58,000
5	51,000
6	69,000
7	91,000
8	75,000
9	155,000
10	107,000
11	126,000
(DEVELOPMENT LEASE-UP)	
TOTAL	947,000

IN DECEMBER 2000, EASTGROUP ACQUIRED 62 ACRES (SHADED ABOVE) OF WORLD HOUSTON INTERNATIONAL BUSINESS CENTER LAND FOR FUTURE DEVELOPMENT OF APPROXIMATELY 800,000 SQUARE FEET OF SPACE.

## 2001 LEASING SUMMARY

1/1/01 TOTAL SF	16,837,000
1/1/01 VACANCY	705,000
2001 LEASE EXPIRATIONS	3,248,000
2001 TOTAL POTENTIAL VACANCY	3,953,000
POTENTIAL VACANCY LEASED	665,000
2/28/01 VACANCY SF	757,000
2/28/01 PERCENT VACANT	4.5%

## OPERATIONS

Internally generated growth or same property results – increases in net operating income at our operating properties owned for both years – was 3.2% in 2000. We renewed 56% of the square footage of leases that matured and achieved average rental rate increases of 6.4% during 2000. At the end of the year, we were 96.4% leased on a portfolio wide basis, a slight decrease from the end of 1999.

Looking forward, leases for 19.3% of the portfolio are scheduled to expire in 2001. This above average level of turnover has been a primary focus of management since mid-2000. We intensified efforts on obtaining early lease

renewals from our tenants and initiated an aggressive marketing program to lease vacant space. Presently, we are encouraged by the results of this stepped-up focus.

## CAPITAL RECYCLING

Recycling of capital through asset sales and the redeployment of the proceeds in both development and acquisitions has long been an important element of our growth strategy. Through this process, we are continually upgrading the quality, location and upside potential of our properties. After several years of asset sales in the \$40-50 million range, we scaled back our sales program in 2000 to \$17.5 million, which included a warehouse

complex, a parcel of land and our only apartment property. We had scheduled a number of additional properties for disposition; however, they had potential significant leasing risk that we determined would negatively affect the ultimate sales price. As a result, we postponed offering these properties for sale until 2001 by which time the leasing issues should be resolved, enabling us to achieve higher prices.

In 2001, we expect our pace of property sales to return to a range of \$40-50 million. Currently, we have approximately \$20 million of assets under letters-of-intent to sell. Properties identified for sale include our Los Angeles Corporate Center office building,

the Ethan Allen Distribution Center in Chino, Nobel Business Center in Hercules and several smaller assets in Dallas, Memphis and West Palm Beach. We also plan to exit the Oklahoma City and Tulsa markets in the next 12-18 months.

During 2000, we acquired five operating properties containing 335,000 square feet with a total cost of \$11,716,000. In addition, we purchased eight parcels of land for development consisting of 136 acres for a total of \$11,550,000. All five property acquisitions increased the density of our clustered assets in core submarkets and are located in Dallas, Houston, El Paso and two in Tempe.



“RECYCLING OF CAPITAL THROUGH  
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STRATEGY.”



HOUSTON GLENMONT BUSINESS PARK (212,000 SQUARE FEET) WAS DEVELOPED IN TWO PHASES AND IS 100% LEASED TO FOUR TENANTS.



sunport commerce  
center / orlando

property	square feet
1 sunport i	56,000
2 sunport ii	60,000
3 sunport iii	60,000
total	176,000

3



ORLANDO SUNPORT COMMERCE CENTER II (60,000 SQUARE FEET) IS CURRENTLY UNDER CONSTRUCTION AND IS 100% PRE-LEASED.

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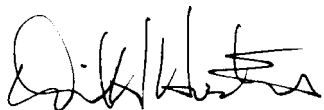


have increased with an annual average of 6%. Over this time, we have reduced our payout ratio of funds from operations from over 80% to 63%. In December, EastGroup paid its 84th consecutive quarterly dividend to shareholders.

## THE FUTURE

In January 2001, two additional investment firms initiated analyst coverage of EastGroup. This brings the total to nine companies that follow us on a regular basis. We are pleased with this level of interest in EastGroup and believe that our shareholders benefit from the growing exposure in the investment community of our achievements and future prospects.

EastGroup is well positioned for continued growth as we incrementally create value through our focused use of capital. We have a strong and committed management team, a portfolio of well located quality assets, balance sheet flexibility and a strategy that is working.



DAVID H. HOSTER II  
*President and CEO*



LELAND R. SPEED  
*Chairman of the Board*

March 1, 2001



TAMPA WESTLAKE DISTRIBUTION CENTER IS A TWO-BUILDING, 140,000 SQUARE FOOT DEVELOPMENT LOCATED IN THE TAMPA INTERNATIONAL AIRPORT SUBMARKET.





# Eastgroup Industrial properties

Property [as of 2/28/01]	Location	Size	Percentage Leased 2/28/2001	Year Acquired	Cost Before Depreciation 12/31/2000	
FLORIDA						
Jacksonville						
Deerwood Distribution Center .....	JACKSONVILLE, FL	126,000 SF	100%	1989/93	\$ 4,105,000	
Phillips Distribution Center (3) .....	JACKSONVILLE, FL	161,000 SF	100%	1994/95	6,278,000	
Lake Pointe Business Park (9) .....	JACKSONVILLE, FL	376,000 SF	94%	1994	12,229,000	
Ellis Distribution Center (2) .....	JACKSONVILLE, FL	337,000 SF	100%	1997	8,473,000	
Westside Distribution Center (4) .....	JACKSONVILLE, FL	537,000 SF	100%	1997	15,231,000	
Orlando						
Chancellor Center .....	ORLANDO, FL	51,000 SF	100%	1998	2,018,000	
Exchange Distribution Center .....	ORLANDO, FL	139,000 SF	86%	1994	3,789,000	
Sunbelt Distribution Center I, II & III (6) .....	ORLANDO, FL	300,000 SF	100%	1989/99	10,098,000	
John Young Commerce Center I & II (2) .....	ORLANDO, FL	98,000 SF	100%	1999/00	7,348,000	
Altamonte Commerce Center(6) .....	ORLANDO, FL	123,000 SF	93%	1999	4,408,000	
Tampa						
56th Street Commerce Park (7) .....	Tampa, FL	181,000 SF	96%	1993/97	5,744,000	
Jetport Commerce Park (11) .....	Tampa, FL	285,000 SF	96%	93/94/95/99	9,816,000	
Westport Commerce Center (3) .....	Tampa, FL	140,000 SF	85%	1994	5,954,000	
Benjamin Distribution Center I, II & III (3) .....	Tampa, FL	123,000 SF	100%	1998/99	6,818,000	
Palm River Center I & II (2) .....	Tampa, FL	144,000 SF	100%	1998	6,207,000	
Palm River North II .....	Tampa, FL	96,000 SF	100%	2000	5,140,000	
Walden Distribution Center .....	Tampa, FL	122,000 SF	99%	1999	4,456,000	
Premier Distribution Center .....	Tampa, FL	222,000 SF	100%	1999	7,361,000	
Airport Commerce Center (2) .....	Tampa, FL	108,000 SF	100%	1999	5,752,000	
Westlake Distribution Center .....	Tampa, FL	70,000 SF	100%	2000	4,836,000	
Fort Lauderdale/Pompano Beach area						
Lipro Commerce Center (3) .....	FORT LAUDERDALE, FL	99,000 SF	100%	1996	3,293,000	
Cypress Creek Business Park (2) .....	FORT LAUDERDALE, FL	56,000 SF	97%	1997	2,989,000	
Lockhart Distribution Center (3) .....	FORT LAUDERDALE, FL	118,000 SF	100%	1997	4,227,000	
Interstate Commerce Center .....	FORT LAUDERDALE, FL	85,000 SF	100%	1998	3,416,000	
Sample 95 Business Park (5) .....	POMPAÑO BEACH, FL	227,000 SF	100%	1996/00	12,133,000	
West Palm I & II (2) .....	WEST PALM BEACH, FL	26,000 SF	91%	1998	2,828,000	
Blue Heron Distribution Center (2) .....	WEST PALM BEACH, FL	110,000 SF	73%	1999	5,241,000	
		4,460,000 SF	4,460,000		170,188,000	
CALIFORNIA						
San Francisco area						
Wiegman Associates (4)* .....	HAYWARD, CA	262,000 SF	100%	1996	11,258,000	
Huntwood Associates (7) .....	HAYWARD, CA	514,000 SF	100%	1996	19,336,000	
San Clemente Distribution Center .....	HAYWARD, CA	81,000 SF	100%	1997	2,897,000	
Nobel Center (2) .....	HERCULES, CA	54,000 SF	94%	1987	4,281,000	
Yosemite Distribution Center (2) .....	MILPITAS, CA	102,000 SF	100%	1999	7,344,000	
Los Angeles area						
Kingsview Industrial Center .....	CARSON, CA	83,000 SF	100%	1996	3,216,000	
Dominguez Distribution Center .....	CARSON, CA	262,000 SF	100%	1996	10,887,000	
Main Street Distribution Center .....	CARSON, CA	106,000 SF	100%	2000	5,709,000	
Walnut Business Center (2) .....	FULLERTON, CA	234,000 SF	100%	1996	8,308,000	
Washington Distribution Center .....	SANTA FE SPRINGS, CA	141,000 SF	100%	1997	6,713,000	
Ethan Allen Distribution Center .....	CHINO, CA	300,000 SF	100%	1998	12,814,000	
Industry Distribution Center .....	CITY OF INDUSTRY, CA	572,000 SF	100%	1998	22,968,000	
Chestnut Business Center .....	CITY OF INDUSTRY, CA	75,000 SF	100%	2000	5,139,000	
Santa Barbara						
University Business Center (4)* .....	SANTA BARBARA, CA	230,000 SF	230,000	100%	1996	28,734,000
Fresno						
Shaw Commerce Center (5) .....	FRESNO, CA	398,000 SF	398,000	85%	1998	14,435,000
San Diego						
Eastlake Distribution Center .....	SAN DIEGO, CA	191,000 SF	18%	1997	10,003,000	
		3,605,000 SF	3,605,000		174,042,000	
TEXAS						
Dallas						
Interstate Warehouses (3) .....	DALLAS, TX	325,000 SF	88%	1988/00	10,200,000	
Venture Warehouses (2) .....	DALLAS, TX	209,000 SF	100%	1988	6,130,000	
109th Street .....	DALLAS, TX	54,000 SF	100%	1997	1,073,000	
Stemmons Circle (3) .....	DALLAS, TX	99,000 SF	100%	1998	2,513,000	
Ambassador Row Warehouses (3) .....	DALLAS, TX	317,000 SF	100%	1998	6,717,000	
Viscount Row Distribution Center .....	DALLAS, TX	104,000 SF	100%	1998	2,173,000	
Carpenter Duplex .....	DALLAS, TX	47,000 SF	100%	1998	1,134,000	

Property	Location	Size	Percentage Leased 2/28/2001	Year Acquired	Cost Before Depreciation 12/31/2000	
Houston						
northwest point business park (4)	HOUSTON, TX	232,000 SF	67%	1994	7,211,000	
lockwood distribution center (3)	HOUSTON, TX	392,000 SF	100%	1997	6,357,000	
west loop I & II distribution (2)	HOUSTON, TX	160,000 SF	93%	1997/00	5,603,000	
world houston international business center(9)	HOUSTON, TX	714,000 SF	95%	1998/99	31,926,000	
world houston 10 (Acq. 1/01)	HOUSTON, TX	107,000 SF	100%	2001	5,712,000	
america plaza	HOUSTON, TX	121,000 SF	100%	1998	5,322,000	
central green distribution center	HOUSTON, TX	84,000 SF	100%	1999	4,607,000	
glenmont business park	HOUSTON, TX	108,000 SF	1,918,000	100%	2000	4,205,000
El Paso						
butterfield trail (9)	EL PASO, TX	750,000 SF	97%	1997/00	23,619,000	
rojas commerce park (3)	EL PASO, TX	172,000 SF	922,000	85%	1999	5,172,000
		3,995,000 SF	3,995,000			129,674,000
ARIZONA						
Phoenix area						
broadway industrial park I-IV (4)	tempe, AZ	236,000 SF	100%	1996/99/00	10,103,000	
kyrene distribution center	tempe, AZ	70,000 SF	100%	1999	2,904,000	
metro business park (5)	phoenix, AZ	189,000 SF	100%	1996	10,200,000	
35th Avenue (2)	phoenix, AZ	124,000 SF	100%	1997	2,870,000	
estrella distribution center	phoenix, AZ	174,000 SF	75%	1998	5,404,000	
51st Avenue distribution center	phoenix, AZ	79,000 SF	100%	1998	2,416,000	
east university I & II (2)	phoenix, AZ	145,000 SF	100%	1998	5,688,000	
55th Avenue distribution center	phoenix, AZ	131,000 SF	100%	1998	4,715,000	
7th street distribution center	phoenix, AZ	39,000 SF	69%	1998	1,921,000	
interstate commons distribution center (2)	phoenix, AZ	136,000 SF	1,323,000	88%	1999	4,484,000
Tucson						
chamberlain distribution center	TUCSON, AZ	120,000 SF	100%	1997	4,083,000	
airport distribution center	TUCSON, AZ	162,000 SF	100%	1998	5,783,000	
southpointe distribution center	TUCSON, AZ	206,000 SF	488,000	100%	1999	5,677,000
		1,811,000 SF	1,811,000			66,248,000
TENNESSEE						
Memphis						
senator street distribution I & II (4)	memphis, TN	185,000 SF	73%	1997/98	5,152,000	
air park distribution center I & II (2)	memphis, TN	109,000 SF	100%	1998	2,530,000	
lamar distribution center I & II(2)	memphis, TN	276,000 SF	100%	1998	6,898,000	
delp distribution center I, II & III (3)	memphis, TN	274,000 SF	96%	1998	5,618,000	
penney distribution center	memphis, TN	106,000 SF	100%	1998	2,433,000	
getwell distribution center	memphis, TN	26,000 SF	100%	1998	795,000	
southeast crossing (3)	memphis, TN	348,000 SF	90%	1999	12,540,000	
		1,324,000 SF	1,324,000			35,966,000
LOUISIANA						
New Orleans						
elmwood business park (5)	new orleans, LA	262,000 SF	98%	1997	9,695,000	
riverbend business park (3)	new orleans, LA	591,000 SF	99%	1997	20,727,000	
		853,000 SF	853,000			30,422,000
COLORADO						
Denver						
rampart distribution center I, II & III (4)	denver, CO	274,000 SF	274,000	93%	1989/98/00	14,334,000
OKLAHOMA						
Oklahoma City						
lakeside distribution center	OKLAHOMA CITY, OK	60,000 SF	100%	1994	1,383,000	
northpointe commerce center	OKLAHOMA CITY, OK	58,000 SF	118,000	92%	1998	3,891,000
Tulsa						
branniff park west (2)	TULSA, OK	259,000 SF	259,000	100%	1996	6,188,000
		377,000 SF	377,000			11,462,000
MISSISSIPPI						
interchange business park (3)	jackson, MS	127,000 SF	127,000	88%	1997	5,733,000
MICHIGAN						
auburn facility	AUBURN HILLS, MI	114,000 SF	114,000	100%	1998	16,156,000
TOTAL		16,940,000 SF				\$ 654,225,000

\* EGP owns 80% of this property. ( ) Represents number of buildings.

## VALUE CREATION

Value Creation is the overriding objective of our multi-pronged strategy for growth. The successful implementation of each element generates increased real estate value which ultimately translates into the creation of growth in shareholder value.

Shareholder Value, or Total Return, is the combination of share price appreciation and dividends received. Over time, they reflect the per share growth in funds from operations, dividends and the underlying value of our real estate assets.

We create value through three basic growth strategies – new development, the recycling of capital and internal operations. These are each implemented under the umbrella strategy of clustering multi-tenant distribution properties in supply constrained submarkets that are supported by major trans-

portation features. We select and develop these clusters of properties where tenants either want to be or have to be so that EastGroup is competing based on the value of the location rather than on rental rates.

### CLUSTER STRATEGY

The clustering of properties in a submarket generates a number of value enhancement factors. We achieve operational economies of scale; we better serve our tenant base with an increased number of leasing options to meet changing needs; and we develop market recognition as a successful provider of quality space and service. In addition, we believe that the submarket portfolios assembled through clustering create a total market value that is greater than the sum of the individual underlying asset values. This is achieved by portfolio size and submarket penetration.



HOUSTON WORLD HOUSTON 10 (107,000 SQUARE FEET) WAS ACQUIRED IN JANUARY 2001 AND IS 100% LEASED TO AN AIR CARGO TENANT. THE BUILDING WAS CONTRACTED FOR AND CONSTRUCTED IN 1999.

### GENERATING VALUE WITH NEW DEVELOPMENT

Investment in new development generates yields greater than those that can generally be achieved through the purchase of comparable assets by 150-200 basis points. Besides generating higher funds from operations, development creates assets with values greater than our invested capital in them. Over the past three years, EastGroup has developed 21 properties containing 1.9 million square feet at a total cost of \$90 million. We estimate that this development program has created approximately \$20 million in additional real estate value which is not reflected in our financial statements.

Our development program also provides a variety of other benefits that contribute to value creation for the overall portfolio:

- We build state-of-the-art facilities designed to meet the specific needs of the submarket in which they are located.
- We modernize the portfolio.
- We increase our cluster of properties in proven submarkets where it is difficult to purchase assets and, as a result, are better able to service our tenants' space requirements.
- We act as our own general contractor for our Orlando and Tampa developments, increasing investment returns by 50-60 basis points in addition to the greater yields already created through development.

We invested \$40.7 million of capital in new development in 2000 and we plan to invest approximately \$50 million in both 2001 and 2002. We have achieved development yields on stabilized operations of 11.8% and expect these results to continue to deliver this level of results going forward.



## EXPANDING VALUE THROUGH RECYCLING OF CAPITAL

Recycling of capital, the sale of assets and the reinvestment of the proceeds has always been a part of EastGroup's value creation strategy. Recycling allows us to continually upgrade the quality and location of our properties. Through sales, we dispose of properties with limited appreciation potential where we can no longer add value and exit markets and submarkets which no longer meet our investment criteria.

Since basically all of our properties have experienced considerable appreciation in value over time, sales generate taxable capital gains. Therefore, we reinvest the sales proceeds in new property acquisitions through "Section 1031" tax deferred exchange transactions. In addition to having acquired operating properties for the portfolio, we have purchased a significant amount of the land for our development program through these recycling activities.

Recycling provides us with the capital to increase our clusters of assets. All five of the operating properties purchased in 2000 added to the number of properties in existing clusters in Dallas, Houston, El Paso and Tempe. Two of these purchases are literally adjacent to properties we have owned for a number of years. Our acquisition of World Houston 10 in January 2001 also fits this mold.

In 2001, we plan to sell \$40-50 million of assets, and our level of purchases will closely match this range. These acquisitions should again enhance the clusters of properties we already have in our core markets. As in the past, we expect to make at least a small spread on the acquisition rates of return as compared with the yields on the assets sold.

### palm river properties / tampa

property	square feet
1 palm river center I	72,000
2 palm river center II	72,000
3 palm river north I	20,000
4 palm river north II	96,000
5 palm river north III	96,000
TOTAL	356,000



TAMPA PALM RIVER NORTH II (96,000 SQUARE FEET) IS PART OF A THREE-BUILDING COMPLEX CONTAINING A TOTAL OF 212,000 SQUARE FEET OF NEW DEVELOPMENT.

5

4

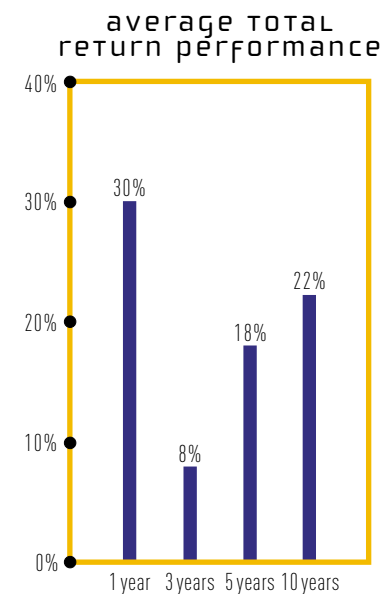
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1

2



**TUCSON SOUTHPOINTE DISTRIBUTION CENTER** (206,000 SQUARE FEET) WAS VACANT WHEN IT WAS ACQUIRED OUT OF A BANKRUPTCY IN 1999. THE PROPERTY IS CURRENTLY 100% LEASED AND HAS ADJACENT LAND FOR FUTURE DEVELOPMENT.



## ENTREPRENEURIAL APPROACH

EastGroup's knowledge of its core markets and its ability to move quickly and decisively when opportunities arise allow us to pursue a number of entrepreneurial-type investments. In late 1999, we acquired the 206,000 square foot Southpointe Distribution Center and an adjacent 10 acres in Tucson out of a bankruptcy auction sale. This ten-year old, state-of-the-art facility is now 100% leased to two tenants and is generating an investment yield in excess of 12%. Additional entrepreneurial activity includes the expansion of two properties in Jacksonville to meet the space requirements of current tenants and not lose them to competition.

The REIT Modernization Act, which

was passed in 2000, provides REITs with the opportunity to pursue previously prohibited activities through wholly-owned taxable REIT subsidiaries (TRS).

Going forward, we see that our TRS will be a vehicle for EastGroup to pursue a variety of entrepreneurial value enhancing activities. These include developing smaller buildings for sale to users, development of build-to-suit properties for sale, redevelopment of older assets for sale, and the sale of developed land to users. As part of our World Houston land transaction, we placed 18 acres in our TRS to provide increased flexibility to fully maximize the potential value of this investment. We already have 4.4 acres of it under contract to sell at a profit.

## INTERNAL OPERATIONS

The value of our core portfolio is directly tied to the ongoing operations of the individual properties. The asset by asset concentration of our management and leasing teams creates a focus on tenant retention, with the ultimate goal of maximizing cash flow through high occupancy, increased rents and cost control.

During 2000, we renewed 56% of our expiring leases on a square footage basis, achieved average rental increases of 6.4% and generated a 3.2% increase in operating results for the properties owned in both 1999 and 2000. We ended the year with a portfolio occupancy level of 96%.

## SUMMARY

Value Creation is what we are all about, and our track record for shareholders directly reflects this.

- EastGroup's shares have outperformed the REIT total return indices for six consecutive years.
- EastGroup's annual total returns to shareholders have been 30% for last year, 8% for three years, 18% for five years and 22% for ten years.
- EastGroup has paid 84 consecutive dividends.
- EastGroup's dividend has increased every year since 1993 with an average annual increase of 6%.



## DEVELOPMENT

EastGroup's development program has been a major contributor to our growth in FFO over the past several years, and we expect this contribution to remain important in 2001 and beyond. We are an "infill" site developer targeting our capital to submarkets where we have a successful presence. These submarkets are supply constrained due to limited land for new development and are clustered around transportation features. We are targeting tenants in the 5,000 - 50,000 square foot range.

During 2000, we invested \$40.7 million

in new development. This did not quite reach our goal of \$50 million primarily due to the highly stringent criteria for our development projects. We also converted eight properties with 664,000 square feet from the development pipeline to the portfolio. The average size of these developments was 83,000 square feet with an average total cost of \$4.9 million, or \$59 per square foot. All eight are on "infill" sites where we already have a cluster of assets. They are located in Orlando, Pompano Beach, Denver, Houston and two each in Tampa and Los Angeles.

In addition, we began construction of eleven new properties totaling 913,000 square feet, with a projected total cost of \$45.2 million. They are very similar to our typical development with an average of 83,000 square feet and a projected average total cost of \$4.1 million, or \$50 per square foot. The new development locations include Jacksonville, two each in Phoenix and Orlando and three each in Tampa and Houston.

ORLANDO SUNPORT COMMERCE CENTER I (56,000 SQUARE FEET) WAS COMPLETED IN AUGUST 2000 AND IS 80% LEASED.

we are an  
"INFILL" site  
developer  
targeting our  
capital to  
submarkets  
where we are successful





Our goals for new development in both 2001 and 2002 are to invest \$50 million of capital each year. In 2001, we expect to begin construction of properties in Orlando, Tampa, Fort Lauderdale, Houston and Phoenix. We believe that our targeted development strategy in supply constrained submarkets provides us with a formula to achieve above average investment returns with a disproportionately small increase in risk despite a slowing economy.

## FINANCIAL STRENGTH

EastGroup's balance sheet remains strong. At December 31, our debt as a percentage of total market capitalization was 37%. For the year, our interest and fixed rate charges were 3.78 and 3.12 times, respectively.

EastGroup closed two nonrecourse, first mortgage loans with insurance companies during 2000. The first is for \$11.5 million with a 7.98% interest rate, 12-year term and 25-year amortization schedule. The second is secured by nine Houston properties for \$26.3 million with a 7.92% interest rate, a 10.5-year term and amortization based

on 30 years. In January 2001, we executed a commitment for a \$45 million nonrecourse first mortgage secured by eight Texas properties. The loan, which is expected to close at the end of the first quarter, has a 7.25% interest rate, 10-year term and 25-year amortization schedule. When funded, the proceeds of this new loan will reduce the outstanding balance on our \$150 million unsecured bank line to approximately \$60 million.

Going forward, the goals for our balance sheet include debt-to-total market capitalization of 40% or less, floating rate debt in the 10-12% range as a percentage of total market capitalization, and interest and fixed rate coverages of at least 3.0 and 2.5 times, respectively. Our current balance sheet strength provides significant flexibility for us to fund our development program and to take advantage of investment opportunities as they arise, while being able to comfortably weather a possible downturn in the economy.

## REIT INVESTMENTS

Growth through investments in other real estate companies has always been one

of EastGroup's stated investment strategies and will continue to be in the future. We only invest in companies that we see as potential candidates for a combination with EastGroup to benefit our shareholders. In 2000, our investments in two real estate investment trusts – Franklin Select Realty Trust and Pacific Gulf Properties – generated significant returns for our shareholders as these two entities liquidated their portfolios.

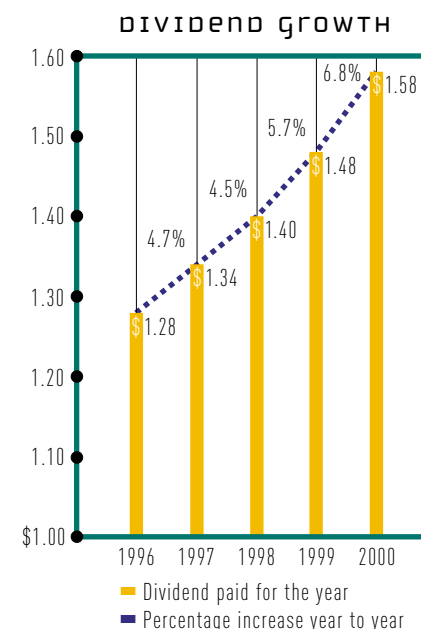
Our \$5,271,000 investment in Franklin yielded total gains of \$1,347,000 on distributions received in the first and fourth quarters and an overall internal rate of return of approximately 20%. Our \$9,909,000 investment in Pacific Gulf generated a fourth quarter gain of \$807,000 on Pacific Gulf's initial liquidating dividend. We estimate that we will record additional gains of approximately \$3.0 to \$3.4 million on our investment during 2001 as Pacific Gulf completes its liquidation and distributes the proceeds from the sales of its remaining assets.

The gains from both Franklin and Pacific Gulf are being offset for tax purposes by capi-

tal loss carryforwards from our 1998 merger with Meridian Point Realty Trust VIII. As a result, the capital from both our original investments and these gains are retained and are being reinvested in income producing assets.

## DIVIDENDS

In September, EastGroup increased its regular quarterly common stock dividend by 7.9% to an annualized rate of \$1.64 per share. For eight straight years, EastGroup's dividends



**FOR EIGHT STRAIGHT YEARS, EASTGROUP'S DIVIDENDS HAVE INCREASED WITH AN ANNUAL AVERAGE OF 6%.**

# Financials

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FINANCIAL CONDITION

Assets of EastGroup were \$666,205,000 at December 31, 2000, an increase of \$34,054,000 from December 31, 1999. Liabilities (excluding minority interests) increased \$28,617,000 to \$289,116,000; minority interests decreased \$643,000 to \$1,697,000; and stockholders' equity increased \$6,080,000 to \$375,392,000 during the same period. Book value per common share increased from \$16.47 at December 31, 1999 to \$16.55 at December 31, 2000.

Industrial properties increased \$50,262,000 during the year ended December 31, 2000 as compared to 1999. This increase was primarily due to the transfer of eight properties from industrial development with total costs of \$38,948,000, the acquisition of six properties for \$13,628,000 (as detailed below), capital improvements of \$10,180,000 and the reclassification of one property from real estate held for sale with costs of \$2,749,000. These increases were offset by the reclassifications of four properties to real estate held for sale with costs of \$15,243,000.

#### Industrial Properties

<i>Acquired in 2000</i>	<i>Location</i>	<i>Size</i>	<i>Date Acquired</i>	<i>Cost</i>
				<i>(In thousands)</i>
Broadway Industrial #3.....	Tempe, Arizona	56,000 sq. ft.	01-13-00	\$ 2,517
Founders Business Center.....	El Paso, Texas	77,000 sq. ft.	04-11-00	2,302
Interstate Distribution Center III .....	Dallas, Texas	78,000 sq. ft.	05-19-00	2,528
Broadway Industrial #4.....	Tempe, Arizona	40,000 sq. ft.	07-27-00	2,032
West Loop I .....	Houston, Texas	84,000 sq. ft.	09-12-00	2,337
World Houston Land.....	Houston, Texas	18 acres	12-27-00	1,912
Total Industrial Acquisitions .....				<u>\$ 13,628</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Industrial development increased \$1,713,000 during the year ended December 31, 2000. This increase resulted primarily from development costs of \$40,661,000 on development properties, offset by development properties transferred to industrial properties with costs of \$38,948,000, as detailed below.

### Industrial Development

		Costs Incurred		
	Size at Completion	For the 12 Months Ended 12/31/00	Cumulative as of 12/31/00	Estimated Total Costs (1)
	(Square feet)		(In thousands)	
<b>Lease-Up:</b>				
Glenmont II				
Houston, Texas .....	104,000	\$ 2,448	2,916	3,780
Palm River North I & III				
Tampa, Florida.....	116,000	3,362	4,928	6,290
Westlake II				
Tampa, Florida .....	70,000	3,343	3,343	4,270
Sunport I				
Orlando, Florida .....	56,000	1,851	3,122	3,200
Beach Commerce Center				
Jacksonville, Florida .....	46,000	2,029	2,029	2,800
World Houston 11				
Houston, Texas .....	126,000	3,135	3,721	5,460
Interstate Commons II				
Phoenix, Arizona .....	59,000	1,889	2,209	2,900
Total Lease-up .....	577,000	18,057	22,268	28,700
<b>Under Construction:</b>				
Techway Southwest I				
Houston, Texas .....	126,000	1,888	1,888	5,040
Kyrene II				
Tempe, Arizona .....	60,000	1,169	1,809	3,710
Walden Distribution Center I				
Tampa, Florida.....	90,000	442	779	4,240
Sunport Center II				
Orlando, Florida .....	60,000	762	762	3,500
Total Under Construction .....	336,000	4,261	5,238	16,490
<b>Prospective Development:</b>				
Phoenix, Arizona .....	40,000	237	237	2,000
Tucson, Arizona.....	70,000	299	299	3,500
Tampa, Florida.....	230,000	1,351	1,835	9,200
Orlando, Florida .....	339,000	1,723	1,723	18,900
Houston, Texas .....	1,017,000	5,593	5,593	45,300
Total Prospective Development .....	1,696,000	9,203	9,687	78,900
	2,609,000	\$ 31,521	37,193	124,090

(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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	Size at Completion	Costs Incurred	
		For the 12 Months Ended 12/31/00	Cumulative as of 12/31/00
	(Square feet)	(In thousands)	
<b>Development Transferred To Industrial Properties During Twelve Months Ended December 31, 2000:</b>			
John Young II			
Orlando, Florida.....	47,000	\$ 1,563	4,125
Rampart Distribution Center III			
Denver, Colorado.....	92,000	982	5,736
Sample 95 II			
Pompano, Florida.....	70,000	556	4,057
Chestnut Business Center			
City of Industry, California.....	75,000	785	5,139
Palm River North II			
Tampa, Florida .....	96,000	1,996	5,142
Westlake I			
Tampa, Florida .....	70,000	534	4,836
Glenmont I			
Houston, Texas .....	108,000	998	4,204
Main Street			
Carson, California .....	106,000	1,726	5,709
Total Transferred to Industrial .....	664,000	\$ 9,140	38,948

Other real estate properties decreased by \$6,919,000 as a result of the reclassification of an office building to real estate held for sale with costs of \$7,037,000, offset by capital improvements of \$118,000.

Real estate held for sale increased \$8,551,000 primarily due to the reclassification of four industrial properties and one office building to real estate held for sale with total costs of \$22,280,000 and to capital improvements of \$313,000. These increases were offset by the sales of one industrial property, one apartment complex and one parcel of land with total costs of \$11,293,000 and by the transfer of one industrial property to real estate properties with a cost of \$2,749,000.

Accumulated depreciation on real estate properties and real estate held for sale increased \$18,541,000 due to depreciation expense of \$21,354,000, offset by the sale of two properties with total accumulated depreciation of \$2,813,000.

Mortgage loans receivable increased \$485,000 during 2000 as a result of advances of \$4,609,000 offset by repayments of \$4,124,000 that included the payoffs of the BayPointe loan of \$1,965,000 and the Wilson Street loan of \$2,100,000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investment in real estate investment trusts (REITs) decreased \$7,640,000 primarily as a result of liquidating dividends from Franklin Select Realty Trust (Franklin) and the first liquidating dividend from Pacific Gulf Properties (PAG). The Company's basis in these shares decreased from \$15,040,000 to zero. PAG has sold a significant portion of its assets and has announced that it intends to sell most of its remaining assets. Any further distributions received by the Company will be recorded as realized gains (see Liquidity and Capital Resources). These decreases were offset by the investment of \$4,964,000 in other REIT shares and from an increase of \$2,436,000 in the market value of the Company's investments in PAG and other REIT shares.

Other assets increased \$5,939,000 primarily as a result of increases in tax deferred cash escrows of \$3,525,000 and unamortized leasing commissions and loan costs of \$1,731,000.

Mortgage notes payable increased \$20,044,000 as a result of the Company's new \$26,300,000 nonrecourse first mortgage loan and the University Business Center new loan of \$11,500,000. These increases were offset by regularly scheduled principal payments of \$3,839,000 and the repayment of \$8,411,000 on the University Business Center Cigna note and \$5,506,000 on the La Vista Apartments note paid off at the sale closing.

Notes payable to banks increased \$7,000,000 as a result of borrowings of \$182,519,000 offset by payments of \$175,519,000. The Company's credit facilities are described in greater detail under Liquidity and Capital Resources.

Accounts payable and accrued expenses increased \$1,622,000 primarily as a result of a net increase in payables due to timing differences.

Minority interest in operating partnership decreased from \$650,000 to zero as a result of the repurchase of all outstanding limited partnership units during 2000.

Accumulated other comprehensive income increased \$2,436,000 as a result of an increase in the market value of the Company's investments recorded in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," offset by liquidating dividends from Franklin and PAG.

As a result of the adoption of a new compensation plan, unearned compensation of \$3,716,000 was recorded to show the effect of the initial incentive restricted stock issuance. This amount was offset by amortization of \$372,000 to record the expense for 2000 associated with the plan. See Note 7 of the Notes to the Consolidated Financial Statements for disclosure as to this plan.

Undistributed earnings increased \$1,531,000 as a result of net income of \$36,512,000 exceeding dividends on common stock of \$24,973,000 and dividends on preferred stock of \$10,008,000.

## RESULTS OF OPERATIONS

### 2000 Compared to 1999

Net income available to common shareholders for 2000 was \$26,504,000 (\$1.70 per basic share and \$1.68 per diluted share) compared to net income available to common shareholders in 1999 of \$32,229,000 (\$2.01 per basic share and \$1.99 per diluted share). Income before gain on real estate investments was \$27,741,000 in 2000 compared to \$23,416,000 in 1999. Gain on real estate investments was \$8,771,000 in 2000 compared to \$15,357,000 in 1999. Income before cumulative effect of change in accounting principle was \$36,512,000 in 2000 compared to \$38,773,000 in 1999. Cumulative effect of change in accounting principle was zero in 2000 and \$418,000 in 1999. The paragraphs that follow describe the results of operations in greater detail.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 \$8,168,000 or 12.9% for 2000, compared to 1999. PNOI by property type and percentage leased for industrial were as follows:

### Property Net Operating Income

	PNOI Years Ended December 31,		Percent Leased	
	2000	1999	12-31-00	12-31-99
	(In thousands)			
Industrial.....	\$ 69,121	59,954	96.4%	97.0%
Other .....	2,426	3,425		
Total PNOI.....	\$ 71,547	63,379		

PNOI from industrial properties increased \$9,167,000 for 2000 compared to 1999 primarily due to acquisitions, rental rate increases and development properties that achieved stabilized operations in 1999 and 2000. Industrial properties held throughout 2000 and 1999 showed an increase in PNOI of 3.2% for 2000.

Gain on securities increased \$2,124,000 for 2000 compared to 1999 primarily due to the liquidating distributions from Franklin and PAG as discussed in the Financial Condition section.

Bank interest expense (excluding amortization of loan costs of \$264,000 for 2000 and \$251,000 for 1999) increased \$1,550,000 from \$6,843,000 in 1999 to \$8,393,000 in 2000. Average bank borrowings were \$107,221,000 in 2000 compared to \$104,335,000 in 1999 with average interest rates of 7.83% in 2000 compared to 6.56% in 1999. Bank interest rates at December 31, 2000 were 8.00% on \$92,000,000 and 8.75% on \$10,000,000. Bank interest rates at December 31, 1999 were 7.50% on \$77,000,000, 7.44% on \$8,000,000 and 7.75% on \$10,000,000. 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 2000 were \$2,060,000 compared to \$1,834,000 for 1999. See Note 5 in the Notes to the Consolidated Financial Statements for disclosure relating to the Company's notes payable to banks.

Interest expense on real estate properties (excluding amortization of loan costs of \$169,000 for 2000 and \$152,000 for 1999) decreased \$472,000 from \$12,276,000 in 1999 to \$11,804,000 in 2000, primarily as a result of the payoffs of five mortgages in 1999 and two in 2000, offset by increases due to the issuance of one mortgage and assumption of one mortgage in 1999 and to the issuances of two mortgages in 2000. See Note 6 in the Notes to the Consolidated Financial Statements for details of these transactions.

Depreciation and amortization increased \$3,210,000 in 2000 compared to 1999. This increase was primarily due to the industrial properties acquired in both 1999 and 2000 and development properties that achieved stabilized operations in 1999 and 2000, offset by the sales of several properties in 1999 and 2000, and the transfer of several properties to real estate held for sale (depreciation not taken on those properties in the category "real estate held for sale").

The increase in general and administrative expenses of \$1,088,000 for the year ended December 31, 2000 compared to 1999 is primarily due to compensation expense of \$782,000 in 2000 for the Company's recently granted restricted stock awards. See Note 7 in the Notes to the Consolidated Financial Statements for disclosure as to this plan.

In 2000, the Company recognized gains of \$8,771,000 consisting of the sale of two properties and one parcel of land and the recognition of a deferred gain. In 1999, the Company recognized gains of \$15,357,000 consisting primarily of the sale of three properties, two parcels of land and a land purchase leaseback, a write-down of one property, and the recognition of other deferred gains. See Note 2 in the Notes to the Consolidated Financial Statements for details of these gains.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NAREIT has recommended supplemental disclosures concerning capital expenditures and leasing costs. Capital expenditures for the years ended December 31, 2000 and 1999 by category are as follows:

### Capital Expenditures

	2000			1999
	<i>Industrial</i>	<i>Other</i>	<i>Total</i>	<i>Total</i>
	<i>(In thousands)</i>			
Upgrade on Acquisitions .....	\$ 2,754	-	2,754	3,060
Major Renovation .....	41	-	41	49
Tenant Improvements:				
New Tenants.....	3,054	-	3,054	3,076
New Tenants ( <i>first generation</i> ).....	1,480	-	1,480	204
Renewal Tenants.....	901	-	901	493
Other .....	2,006	375	2,381	2,515
Total capital expenditures .....	\$ 10,236	375	10,611	9,397

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 years ended December 31, 2000 and 1999 is as follows:

### Capitalized Leasing Costs

	2000			1999
	<i>Industrial</i>	<i>Other</i>	<i>Industrial Development</i>	<i>Total</i>
	<i>(In thousands)</i>			<i>Total</i>
Capitalized leasing costs:				
New Tenants.....	\$ 1,091	-	-	1,091
New Tenants ( <i>first generation</i> ).....	158	-	1,730	1,888
Renewal Tenants.....	930	19	-	949
Total capitalized leasing costs .....	\$ 2,179	19	1,730	3,928
Amortization of leasing costs .....				\$2,034
				1,538

### 1999 Compared to 1998

Net income available to common shareholders for 1999 was \$32,229,000 (\$2.01 per basic share and \$1.99 per diluted share) compared to net income available to common shareholders in 1998 of \$27,266,000 (\$1.67 per basic share and \$1.66 per diluted share). Income before gain on real estate investments was \$23,416,000 in 1999 compared to \$19,623,000 in 1998. Gain on real estate investments was \$15,357,000 in 1999 compared to \$9,713,000 in 1998. Income before cumulative effect of change in accounting principle was \$38,773,000 in 1999 compared to \$29,336,000 in 1998. Cumulative effect of change in accounting principle was \$418,000 for 1999 and zero for 1998. The paragraphs that follow describe the results of operations in greater detail.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PNOI from real estate properties, defined as income from real estate operations less property operating expenses (before interest expense and depreciation), increased by \$8,395,000 or 15.27% for 1999, compared to 1998. PNOI by property type and percentage leased for industrial were as follows:

### Property Net Operating Income

	PNOI Years Ended December 31,		Percent Leased	
	1999	1998	12-31-99	12-31-98
	(In thousands)			
Industrial.....	\$ 59,954	47,003	97%	98%
Other.....	3,425	7,981		
Total PNOI.....	<u>\$ 63,379</u>	<u>54,984</u>		

PNOI from industrial properties increased \$12,951,000 for 1999 compared to 1998 primarily due to acquisitions, rental rate increases and development properties that achieved stabilized operations in 1998 and 1999. Industrial properties held throughout 1999 and 1998 showed an increase in PNOI of 5.8% for 1999.

PNOI from other properties decreased \$4,556,000 for 1999 compared to 1998 primarily due to the sales of the Columbia Place Office Building and four apartment complexes in 1998 and the 8150 Leesburg Pike Office Building in July 1999.

Bank interest expense (excluding amortization of loan costs of \$251,000 for 1999 and \$375,000 for 1998) increased \$175,000 from \$6,668,000 in 1998 to \$6,843,000 in 1999. Average bank borrowings were \$104,335,000 in 1999 compared to \$94,488,000 in 1998 with average interest rates of 6.56% in 1999 compared to 7.06% in 1998. Average bank borrowings increased primarily as a result of the Meridian acquisition and the acquisition and development of industrial properties. Bank interest rates at December 31, 1999 were 7.50% on \$77,000,000, 7.44% on \$8,000,000 and 7.75% on \$10,000,000. The bank interest rate at December 31, 1998 was 6.96%. 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 1999 were \$1,834,000 compared to \$822,000 for 1998.

Interest expense on real estate properties (excluding amortization of loan costs of \$152,000 for 1999 and \$146,000 for 1998) increased \$1,695,000 from \$10,581,000 in 1998 to \$12,276,000 in 1999, primarily as a result of mortgages assumed in 1998 on two acquired properties and other mortgages assumed in the Meridian VIII merger, and from the issuance of two mortgages in 1999. These increases were offset by the payoffs of four mortgages in 1998 and five in 1999.

Depreciation and amortization increased \$3,614,000 in 1999 compared to 1998. This increase was primarily due to the industrial properties acquired in both 1998 and 1999 and development properties that achieved stabilized operations in 1998 and 1999, offset by the sales of several properties in 1998 and 1999, and the transfer of several properties to real estate held for sale (depreciation not taken on those properties in the category "real estate held for sale").

The increase in general and administrative expenses of \$748,000 for the year ended December 31, 1999 was primarily due to an increase in general and administrative costs due to growth of the Company.

In 1999, the Company recognized gains of \$15,357,000 consisting primarily of the sale of three properties, two parcels of land and a land purchase leaseback, a write-down of one property and the recognition of other deferred gains. In 1998, the Company recognized gains of \$9,713,000 consisting primarily of the sale of eight properties, and the recognition of other deferred gains. See Note 2 in the Notes to the Consolidated Financial Statements for details of these sales.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NAREIT has recommended supplemental disclosures concerning capital expenditures and leasing costs. Capital expenditures for the years ended December 31, 1999 and 1998 by category are as follows:

### Capital Expenditures

	1999			1998
	<i>Industrial</i>	<i>Other</i>	<i>Total</i>	<i>Total</i>
	<i>(In thousands)</i>			
Upgrade on Acquisitions .....	\$ 3,060	-	3,060	2,720
Major Renovation .....	49	-	49	793
Tenant Improvements:				
New Tenants.....	2,802	274	3,076	2,100
New Tenants ( <i>first generation</i> ).....	204	-	204	53
Renewal Tenants.....	484	9	493	1,307
Other .....	2,360	155	2,515	570
Total capital expenditures .....	<u>\$ 8,959</u>	<u>438</u>	<u>9,397</u>	<u>7,543</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 years ended December 31, 1999 and 1998 is as follows:

### Capitalized Leasing Costs

	1999			1998
	<i>Industrial</i>	<i>Other</i>	<i>Industrial Development</i>	<i>Total</i>
	<i>(In thousands)</i>			<i>Total</i>
Capitalized leasing costs:				
New Tenants.....	\$ 1,032	9	-	1,041
New Tenants ( <i>first generation</i> ).....	80	-	1,137	1,217
Renewal Tenants.....	1,007	5	-	1,012
Total capitalized leasing costs .....	<u>\$ 2,119</u>	<u>14</u>	<u>1,137</u>	<u>3,270</u>
Amortization of leasing costs .....				<u>\$ 1,538</u>
				<u>1,072</u>

## NEW ACCOUNTING PRONOUNCEMENTS

### Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued in June 1998 and, as amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. All derivatives are required to be recognized as either assets or liabilities in the statement of financial position and measured at fair value. Changes in fair value will be reported either in earnings or outside of earnings depending on the intended use of the derivative and the resulting designation. Entities applying hedge accounting are required to establish at the inception of the hedge the method used to assess the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The Company has evaluated the effect of adopting this statement and believes the effect of adoption would have no impact to its financial position or results of operations.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$53,016,000 for the year ended December 31, 2000. Other sources of cash were primarily from collections on mortgage loan receivables, sales of real estate investments, liquidating distributions from REIT shares, bank borrowings, proceeds from two new mortgage notes and proceeds from exercise of stock options. The Company distributed \$24,702,000 in common and \$10,008,000 in preferred stock dividends. Other primary uses of cash were for advances on mortgage loan receivables, capital improvements at the various properties, construction and development of properties, purchases of real estate investments, purchase of REIT shares, bank debt payments and mortgage note payments. Total debt at December 31, 2000 and 1999 was as follows:

	<i>Years Ended December 31,</i>	
	<b>2000</b>	1999
	<i>(In thousands)</i>	
Mortgage notes payable – fixed rate .....	<b>\$ 168,709</b>	148,665
Bank notes payable – floating rate .....	<b>102,000</b>	95,000
Total debt .....	<b>\$ 270,709</b>	243,665

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 8.00% on \$92,000,000 at December 31, 2000. An unused facility fee of .25% is also assessed on this note. In January 2001, the Company fixed a 6.75% interest rate for six months on \$25 million of existing debt under this line. The remaining bank debt under this line has a 30-day rate which was 6.84% on \$67,000,000 at March 9, 2001.

EastGroup has a one-year \$10,000,000 unsecured revolving credit facility with Chase Bank of Texas that matured in January 2001. The loan was amended in January 2001 to reflect a new maturity date of January 2002. The interest rate is based on Chase Bank of Texas, National Association's prime rate less .75% and was 8.75% on a \$10,000,000 balance at December 31, 2000. At March 9, 2001, the rate was 7.75% on \$2,877,000.

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 determined at the time of any advances by the Company and Chase. At December 31, 2000, the outstanding balance for this loan was zero. At March 9, 2001, the rate was 6.75% on \$15,000,000.

In January 2001, EastGroup executed an application with Metropolitan Life Insurance Company for a \$45 million nonrecourse mortgage loan with an interest rate of 7.25%, a 25-year amortization and a 10-year maturity. This loan will be secured by eight properties in Dallas, Houston and El Paso and is expected to close in March.

EastGroup's only debt maturing in 2001 was a \$3.8 million mortgage due in March 2001. The Company repaid this note upon maturity by using bank debt.

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. Since September 30, 1998, a total of 827,700 shares have been repurchased for \$14,170,000 (an average of \$17.12 per share).

On June 20, 2000, Pacific Gulf Properties announced that it had entered into an agreement to sell all of its industrial properties and is marketing 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 share from PAG, the Company reduced its basis in PAG shares to zero and recorded a gain of \$807,000. Based on publicly available estimates prepared by analysts who follow PAG, management estimates that the Company will receive an additional \$6.40 per share in 2001 from PAG's distributions of cash as it sells its remaining assets.

Subsequent to December 31, 2000, EastGroup purchased World Houston 10 (107,000 square feet) for \$5,712,000. The purchase was funded with cash escrows from tax deferred exchange transactions. As part of this transaction, the seller repaid \$4,682,000 to the Company on the outstanding mortgage loan receivable and accrued interest for the World Houston 10 note.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Budgeted capital improvements for the year ending December 31, 2001 follow:

	<i>Capital Improvements</i>		
	<i>Industrial</i>	<i>Other</i>	<i>Total</i>
	<i>(In thousands)</i>		
Upgrade on Acquisitions .....	\$ 500	-	500
Tenant Improvements:			
New Tenants .....	4,167	-	4,167
Renewal Tenants .....	1,051	-	1,051
Other .....	1,617	15	1,632
Total budgeted capital improvements .....	<u>\$ 7,335</u>	<u>15</u>	<u>7,350</u>

Budgeted industrial development costs are estimated to be \$36,000,000 for the year.

The Company anticipates that its current cash balance, operating cash flows, and borrowings under the 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.

### 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.

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
Fixed rate debt <i>(in thousands)</i> .....	\$ 7,920	12,452	8,248	8,993	22,756	108,340	168,709	175,729
Weighted average interest rate .....	7.76%	7.59%	8.31%	8.19%	8.10%	7.56%	7.72%	
Variable rate debt <i>(in thousands)</i> .....	\$ 10,000	92,000	-	-	-	-	102,000	102,000
Weighted average interest rate .....	8.75%	8.00%	-	-	-	-	8.07%	

As the table above incorporates only those exposures that exist as of December 31, 2000, 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.

## SHARES OF COMMON STOCK MARKET PRICES AND DIVIDENDS

The Company's shares of Common Stock are presently listed for trading on the New York Stock Exchange under the symbol "EGP." The following table shows the high and low share prices for each quarter reported by the New York Stock Exchange during the past two years and per share distributions paid for each quarter.

<i>Calendar 2000</i>				<i>Calendar 1999</i>		
Quarter	High	Low	Distributions	High	Low	Distributions
First	\$ 21.56	17.50	\$ .38	\$ 19.13	15.38	\$ .36
Second	22.19	19.88	.38	21.88	15.81	.36
Third	24.00	20.56	.41	21.13	17.38	.38
Fourth	23.38	18.94	.41	18.81	16.25	.38
			<u>\$ 1.58</u>			<u>\$ 1.48</u>

As of March 9, 2001, there were approximately 1,300 holders of record of the Company's 15,859,022 outstanding shares of common stock. Approximately 91% of the Company's outstanding common shares are held by CEDE & Co., which is accounted for as a single shareholder of record for multiple common stock owners. CEDE & Co. is a national clearinghouse for the settlement of trades in corporate, municipal and mortgage-backed securities and performs asset services for its participating banks and broker/dealers. All of the \$1.58 per common share total distributions paid in 2000 and the \$1.48 per share distributions paid in 1999 were taxable as ordinary income for federal income tax purposes.

## SHARES OF SERIES A PREFERRED STOCK MARKET PRICES AND DIVIDENDS

The Company's shares of Series A 9.00% Cumulative Redeemable Preferred Stock are also listed for trading on the New York Stock Exchange and trade under the symbol "EGP PrA." The following table shows the high and low preferred share prices for each quarter reported by the New York Stock Exchange during the past two years and per share distributions paid for each quarter.

<i>Calendar 2000</i>				<i>Calendar 1999</i>		
Quarter	High	Low	Distributions	High	Low	Distributions
First	\$ 21.00	18.38	\$ .5625	\$ 25.25	22.25	\$ .5625
Second	21.25	19.63	.5625	24.75	21.75	.5625
Third	23.25	20.44	.5625	24.50	22.25	.5625
Fourth	23.19	20.88	.5625	22.75	18.00	.5625
			<u>\$ 2.2500</u>			<u>\$ 2.2500</u>

As of March 9, 2001, there were 70 holders of record of the Company's 1,725,000 outstanding shares of Series A preferred stock. Approximately 97% of the Company's outstanding Series A preferred shares are held by CEDE & Co., which is accounted for as a single shareholder of record for multiple preferred stock owners. All of the \$2.25 per share Series A preferred stock distributions paid in both 2000 and 1999 were taxable as ordinary income for federal income tax purposes.

## SHARES OF SERIES B PREFERRED STOCK MARKET PRICES AND DIVIDENDS

In September 1998, EastGroup entered into an agreement with Five Arrows Realty Securities II, L.L.C., an investment fund managed by Rothschild Realty, Inc., a member of the Rothschild Group, providing for the sale of up to 2,800,000 shares of Series B 8.75% Cumulative Convertible Preferred Stock at a net price of \$24.50 per share. The Series B Preferred Stock, which is convertible into common stock at a conversion price of \$22.00 per share, is entitled to quarterly dividends in arrears equal to the greater of \$0.547 per share or the dividend on the number of shares of common stock into which a share of Series B Preferred Stock is convertible. In December 1998, the Company sold \$10 million of the Series B Preferred Stock to Five Arrows and the remaining \$60 million in September 1999. All of the \$2.188 per share Series B distributions paid in 2000 and the \$1.641 per share distributions paid in 1999 were taxable as ordinary income for federal income tax purposes.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the Company and should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

	Years Ended December 31,				
	2000	1999	1998	1997	1996
	(In thousands, except per share data)				
<b>OPERATING DATA:</b>					
<b>Revenues</b>					
Income from real estate operations .....	\$ 93,906	83,320	74,312	49,791	37,143
Interest.....	975	1,367	1,868	2,571	1,718
Gain on securities .....	2,154	30	-	-	6
Other.....	1,068	1,519	548	1,260	904
	<b>98,103</b>	<b>86,236</b>	<b>76,728</b>	<b>53,622</b>	<b>39,771</b>
<b>Expenses</b>					
Operating expenses from real estate operations.....	22,359	19,941	19,328	14,825	13,262
Interest.....	18,570	17,688	16,948	10,551	8,930
Depreciation and amortization.....	23,449	20,239	16,625	10,409	7,759
General and administrative.....	5,607	4,519	3,771	2,923	2,356
	<b>69,985</b>	<b>62,387</b>	<b>56,672</b>	<b>38,708</b>	<b>32,307</b>
<b>Income before minority interest and gain on real estate investments .....</b>	<b>28,118</b>	<b>23,849</b>	<b>20,056</b>	<b>14,914</b>	<b>7,464</b>
Minority interests in joint ventures .....	377	433	433	512	289
<b>Income before gain on real estate investments .....</b>	<b>27,741</b>	<b>23,416</b>	<b>19,623</b>	<b>14,402</b>	<b>7,175</b>
Gain on real estate investments .....	8,771	15,357	9,713	6,377	5,334
<b>Income before cumulative effect of change in accounting principle .....</b>	<b>36,512</b>	<b>38,773</b>	<b>29,336</b>	<b>20,779</b>	<b>12,509</b>
Cumulative effect of change in accounting principle .....	-	418	-	-	-
<b>Net income .....</b>	<b>36,512</b>	<b>38,355</b>	<b>29,336</b>	<b>20,779</b>	<b>12,509</b>
Preferred dividends-Series A.....	3,880	3,880	2,070	-	-
Preferred dividends-Series B.....	6,128	2,246	-	-	-
<b>Net income available to common shareholders .....</b>	<b>\$ 26,504</b>	<b>32,229</b>	<b>27,266</b>	<b>20,779</b>	<b>12,509</b>
<b>BASIC PER SHARE DATA:</b>					
Net income available to common shareholders.....	\$ 1.70	2.01	1.67	1.58	1.44
Weighted average shares outstanding.....	15,623	16,046	16,283	13,176	8,677
<b>DILUTED PER SHARE DATA:</b>					
Net income available to common shareholders.....	\$ 1.68	1.99	1.66	1.56	1.43
Weighted average shares outstanding.....	15,798	17,362	16,432	13,338	8,749
<b>OTHER PER SHARE DATA:</b>					
Book value (at end of year) .....	\$ 16.55	16.47	16.12	15.88	13.78
Common distributions declared.....	1.58	1.48	1.40	1.34	1.28
Common distributions paid .....	1.58	1.48	1.40	1.34	1.28



## SELECTED CONSOLIDATED FINANCIAL DATA

	Years Ended December 31,				
	2000	1999	1998	1997	1996
	(In thousands, except per share data)				
<b>OTHER DATA:</b>					
<b>Funds from operations:</b>					
Net income .....	\$ 36,512	38,355	29,336	20,779	12,509
Preferred dividends-Series A.....	(3,880)	(3,880)	(2,070)	-	-
Convertible preferred dividends-Series B .....	(6,128)	(2,246)	-	-	-
Net income available to common shareholders.....	26,504	32,229	27,266	20,779	12,509
Add:					
Depreciation and amortization .....	23,449	20,239	16,625	10,409	7,759
Real estate investment trust dividends (equity method).....	-	-	-	-	77
Cumulative effect of change in accounting principle (1).....	-	418	-	-	-
Convertible preferred dividends-Series B .....	6,128	2,246	-	-	-
Limited partnership units.....	18	48	-	-	-
Deduct:					
Gain on depreciable real estate investments, net (2).....	(8,151)	(15,357)	(9,713)	(6,377)	(5,340)
Equity in earnings of real estate investment trust.....	-	-	-	-	(43)
Other.....	(158)	(241)	(324)	(284)	(142)
Funds from operations (2) .....	\$ 47,790	39,582	33,854	24,527	14,820
<b>Cash flows provided by (used in):</b>					
Operating activities .....	\$ 53,016	44,236	36,205	23,817	17,101
Investing activities .....	(43,147)	(68,319)	(130,757)	(80,131)	(3,308)
Financing activities.....	(9,665)	23,956	96,038	57,174	(13,381)
<b>BALANCE SHEET DATA (AT END OF YEAR):</b>					
Real estate investments, at cost (3) .....	\$ 703,846	649,754	582,565	419,857	292,620
Real estate investments, net of accumulated depreciation and allowance for losses (3).....	633,726	598,175	539,729	387,545	269,058
Total assets .....	666,205	632,151	567,548	413,127	281,455
Mortgage, bond and bank loans payable.....	270,709	243,665	236,816	147,150	129,078
Total liabilities.....	290,813	262,839	251,524	155,812	136,129
Total stockholders' equity .....	375,392	369,312	316,024	257,315	145,326

(1) Represents previously capitalized start-up and organizational costs that were expensed on January 1, 1999 in accordance with the requirements of Statement of Position 98-5.

(2) EastGroup defines funds from operations (FFO), consistent with the National Association of Real Estate Investment Trusts (NAREIT) definition, 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. Effective January 1, 2000, NAREIT clarified the definition of FFO to include gains from sales of nondepreciable real estate (land). Gains on land for 2000 have been included in FFO and gains on land for the previous years have not been included in FFO. Gains on land were \$348,000 for 1999, \$44,000 for 1998, \$98,000 for 1997 and \$243,000 for 1996. The Company believes that FFO is an appropriate measure of performance for 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) as a measure of the Company's liquidity, nor is it indicative of funds available for the Company's cash needs, including the ability to make distributions.

(3) Does not include a 50% controlled joint venture investment of \$4,367,000 at December 31, 1996 that was sold in 1997, or the \$500,000 land purchase-leaseback sold in 1999.

## **FORWARD-LOOKING STATEMENTS**

In addition to historical information, certain sections of this Form 10-K 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, 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-K. 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.

## **INDEPENDENT AUDITORS' REPORT**

### **THE DIRECTORS AND STOCKHOLDERS EASTGROUP PROPERTIES, INC.:**

We have audited the accompanying consolidated balance sheets of EastGroup Properties, Inc. and subsidiaries, as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EastGroup Properties, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Jackson, Mississippi  
March 2, 2001

KPMG LLP

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
	<i>(In thousands, except share and per share data)</i>	
<b>ASSETS</b>		
Real estate properties:		
Industrial .....	\$ 630,860	580,598
Industrial development .....	37,193	35,480
Other .....	-	6,919
	668,053	622,997
Less accumulated depreciation .....	(66,492)	(46,829)
	601,561	576,168
Real estate held for sale .....	26,602	18,051
Less accumulated depreciation .....	(3,628)	(4,750)
	22,974	13,301
Mortgage loans .....	9,191	8,706
Investment in real estate investment trusts .....	8,068	15,708
Cash .....	2,861	2,657
Other assets .....	21,550	15,611
<b>TOTAL ASSETS</b> .....	<b>\$ 666,205</b>	<b>632,151</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable .....	\$ 168,709	148,665
Notes payable to banks .....	102,000	95,000
Accounts payable & accrued expenses .....	13,792	12,170
Other liabilities .....	4,615	4,664
	289,116	260,499
Minority interest in joint ventures .....	1,697	1,690
Minority interest in operating partnership .....	-	650
	1,697	2,340
<b>STOCKHOLDERS' EQUITY</b>		
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; 15,849,318 shares issued at December 31, 2000 and 15,555,505 at December 31, 1999 .....	2	2
Excess shares; \$ .0001 par value; 30,000,000 shares authorized; no shares issued .....	-	-
Additional paid-in capital on common shares .....	238,910	233,453
Undistributed earnings .....	28,185	26,654
Accumulated other comprehensive income .....	3,104	668
Unearned compensation .....	(3,344)	-
	375,392	369,312
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<b>\$ 666,205</b>	<b>632,151</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2000	1999	1998
<b>REVENUES</b>	<i>(In thousands, except per share data)</i>		
Income from real estate operations .....	\$ 93,906	83,320	74,312
Interest:			
Mortgage loans .....	839	1,123	1,704
Other interest .....	136	244	164
Gain on securities .....	2,154	30	-
Other .....	1,068	1,519	548
	<b>98,103</b>	<b>86,236</b>	<b>76,728</b>
<b>EXPENSES</b>			
Operating expenses from real estate operations .....	22,359	19,941	19,328
Interest .....	18,570	17,688	16,948
Depreciation and amortization .....	23,449	20,239	16,625
General and administrative .....	5,607	4,519	3,771
	<b>69,985</b>	<b>62,387</b>	<b>56,672</b>
<b>INCOME BEFORE MINORITY INTEREST AND GAIN ON REAL ESTATE INVESTMENTS</b> .....	<b>28,118</b>	<b>23,849</b>	<b>20,056</b>
Minority interest in joint ventures .....	377	433	433
<b>INCOME BEFORE GAIN ON REAL ESTATE INVESTMENTS</b> .....	<b>27,741</b>	<b>23,416</b>	<b>19,623</b>
Gain on real estate investments .....	8,771	15,357	9,713
<b>INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b> .....	<b>36,512</b>	<b>38,773</b>	<b>29,336</b>
Cumulative effect of change in accounting principle .....	-	418	-
<b>NET INCOME</b> .....	<b>36,512</b>	<b>38,355</b>	<b>29,336</b>
Preferred dividends-Series A .....	3,880	3,880	2,070
Preferred dividends-Series B .....	6,128	2,246	-
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b> .....	<b>\$ 26,504</b>	<b>32,229</b>	<b>27,266</b>
<b>BASIC PER SHARE DATA</b>			
Net income available to common shareholders .....	\$ 1.70	2.01	1.67
Weighted average shares outstanding .....	15,623	16,046	16,283
<b>DILUTED PER SHARE DATA</b>			
Net income available to common shareholders .....	\$ 1.68	1.99	1.66
Weighted average shares outstanding .....	15,798	17,362	16,432

See accompanying notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-In Capital	Unearned Compensation	Undistributed Earnings	Accumulated Other Comprehensive Income	Total
<i>(In thousands, except for share and per share data)</i>							
<b>BALANCE, DECEMBER 31, 1997</b>	\$ -	2	244,215	-	13,633	(535)	257,315
Comprehensive income							
Net income	-	-	-	-	29,336	-	29,336
Net unrealized change in investment securities	-	-	-	-	-	1,142	1,142
Total comprehensive income							30,478
Cash dividends declared-common, \$1.40 per share	-	-	-	-	(22,823)	-	(22,823)
Preferred stock dividends declared	-	-	-	-	(2,070)	-	(2,070)
Issuance of 5,007 shares of common stock, incentive compensation	-	-	102	-	-	-	102
Issuance of 15,238 shares of common stock, dividend reinvestment plan	-	-	296	-	-	-	296
Issuance of 29,685 shares of common stock, exercise options	-	-	415	-	-	-	415
Issuance of 79,353 shares of common stock, Ensign merger	-	-	1,746	-	-	-	1,746
Issuance of 1,725,000 shares of Series A preferred	41,357	-	-	-	-	-	41,357
Issuance of 400,000 shares of Series B preferred	9,642	-	-	-	-	-	9,642
Purchase of 5,025 common shares	-	-	(75)	-	-	-	(75)
Purchase of 21,100 common shares, stock repurchase plan	-	-	(359)	-	-	-	(359)
<b>BALANCE, DECEMBER 31, 1998</b>	50,999	2	246,340	-	18,076	607	316,024
Comprehensive income							
Net income	-	-	-	-	38,355	-	38,355
Net unrealized change in investment securities	-	-	-	-	-	61	61
Total comprehensive income							38,416
Cash dividends declared-common, \$1.48 per share	-	-	-	-	(23,651)	-	(23,651)
Preferred stock dividends declared	-	-	-	-	(6,126)	-	(6,126)
Issuance of 8,009 shares of common stock, incentive compensation	-	-	156	-	-	-	156
Issuance of 16,275 shares of common stock, dividend reinvestment plan	-	-	295	-	-	-	295
Issuance of 22,210 shares of common stock, exercise options	-	-	317	-	-	-	317
Issuance of 2,400,000 shares of Series B preferred	57,536	-	-	-	-	-	57,536
Purchase of 2,070 common shares	-	-	(34)	-	-	-	(34)
Purchase of 796,600 common shares, stock repurchase plan	-	-	(13,621)	-	-	-	(13,621)
<b>BALANCE, DECEMBER 31, 1999</b>	108,535	2	233,453	-	26,654	668	369,312
Comprehensive income							
Net income	-	-	-	-	36,512	-	36,512
Net unrealized change in investment securities	-	-	-	-	-	2,436	2,436
Total comprehensive income							38,948
Cash dividends declared-common, \$1.58 per share	-	-	-	-	(24,973)	-	(24,973)
Preferred stock dividends declared	-	-	-	-	(10,008)	-	(10,008)
Issuance of 9,638 shares of common stock, incentive compensation	-	-	174	-	-	-	174
Issuance of 14,175 shares of common stock, dividend reinvestment plan	-	-	312	-	-	-	312
Issuance of 122,250 shares of common stock, exercise options	-	-	1,957	-	-	-	1,957
Issuance of 181,250 shares of common stock, incentive restricted stock	-	-	3,716	(3,716)	-	-	-
Amortization of unearned compensation, incentive restricted stock	-	-	-	372	-	-	372
Repurchase limited partnership units	-	-	(55)	-	-	-	(55)
Purchase of 23,500 common shares	-	-	(457)	-	-	-	(457)
Purchase of 10,000 common shares, stock repurchase plan	-	-	(190)	-	-	-	(190)
<b>BALANCE, DECEMBER 31, 2000</b>	\$108,535	2	238,910	(3,344)	28,185	3,104	375,392

See accompanying notes to consolidated financial statements.

# **CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2000	1999	1998
	(In thousands)		
<b>OPERATING ACTIVITIES:</b>			
Net income .....	\$ 36,512	38,355	29,336
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle .....	-	418	-
Depreciation and amortization .....	23,449	20,239	16,625
Gain on real estate investments, net .....	(8,771)	(15,357)	(9,713)
Gain on real estate investment trust shares .....	(2,154)	(30)	-
Amortization of unearned compensation .....	372	-	-
Minority interest depreciation and amortization .....	(158)	(241)	(324)
Changes in operating assets and liabilities:			
Accrued income and other assets .....	(568)	786	(6,106)
Accounts payable, accrued expenses and prepaid rent .....	4,334	66	6,387
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>	<b>53,016</b>	<b>44,236</b>	<b>36,205</b>
<b>INVESTING ACTIVITIES:</b>			
Payments on mortgage loans receivable, net of amortization of loan discounts .....	4,124	9,809	2,421
Advances on mortgage loans receivable .....	(4,609)	(8,186)	-
Proceeds from sale of real estate investments .....	17,170	51,090	31,215
Real estate improvements .....	(10,611)	(9,397)	(7,543)
Real estate development .....	(40,661)	(45,846)	(25,511)
Purchases of real estate .....	(13,628)	(56,569)	(73,980)
Acquisition of Meridian .....	-	-	(52,760)
Purchases of real estate investment trust shares .....	(4,964)	(10,172)	(1,832)
Proceeds from real estate investment trust shares .....	17,334	292	-
Merger expenses .....	-	-	(1,614)
Changes in other assets and other liabilities .....	(7,302)	660	(7,271)
Cash balances of acquired companies .....	-	-	6,118
<b>NET CASH USED IN INVESTING ACTIVITIES .....</b>	<b>(43,147)</b>	<b>(68,319)</b>	<b>(130,757)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from bank borrowings .....	182,519	297,226	202,560
Debt issuance costs .....	(316)	(902)	(183)
Proceeds from mortgage notes payable .....	37,800	47,000	2,200
Principal payments on bank borrowings .....	(175,519)	(316,548)	(130,008)
Principal payments on mortgage notes payable .....	(17,756)	(21,932)	(6,270)
Distributions paid to shareholders .....	(34,710)	(28,245)	(24,073)
Purchases of limited partnership units .....	(705)	-	-
Purchases of shares of common stock .....	(647)	(13,655)	(434)
Proceeds from exercise of stock options .....	1,957	317	415
Net proceeds from issuance of shares of preferred stock .....	-	57,536	50,999
Proceeds from dividend reinvestment plan .....	312	295	296
Other .....	(2,600)	2,864	536
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES .....</b>	<b>(9,665)</b>	<b>23,956</b>	<b>96,038</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>204</b>	<b>(127)</b>	<b>1,486</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....</b>	<b>2,657</b>	<b>2,784</b>	<b>1,298</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b>\$ 2,861</b>	<b>2,657</b>	<b>2,784</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid for interest, net of amount capitalized .....	\$ 17,919	17,236	15,505
Debt assumed by the Company in purchase of real estate .....	-	1,103	7,167
Operating partnership units issued in purchase of real estate .....	-	-	650
Debt assumed by the Company in the Meridian acquisition .....	-	-	33,422
Debt assumed by buyer of real estate .....	-	-	19,405
Issuance of common stock to acquire Ensign .....	-	-	1,746
Issuance of incentive restricted stock .....	3,716	-	-

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000, 1999 and 1998

### (1) SIGNIFICANT ACCOUNTING POLICIES

#### (a) Principles of Consolidation

The consolidated financial statements include the accounts of EastGroup Properties, Inc. (the Company or EastGroup), its wholly-owned subsidiaries and its investment in any joint ventures. At December 31, 2000 and 1999, the Company had two joint ventures: the 80% owned University Business Center and the 80% owned IBG Wiegman Road Associates. At December 31, 1998, the Company had four joint ventures: the 75% owned 56th Street Commerce Park, the 75% owned JetPort Commerce Park, the 80% owned University Business Center and the 80% owned IBG Wiegman Road Associates. The Company records 100% of the joint ventures' assets, liabilities, revenues and expenses with minority interests provided for in accordance with the joint venture agreements. All significant intercompany transactions and accounts have been eliminated in consolidation.

#### (b) Federal Income Taxes

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. The Company distributed all of its 2000, 1999 and 1998 taxable income to its stockholders. Accordingly, no provision for federal income taxes was necessary. Distributions paid per common share for federal income tax purposes were:

	Years Ended December 31,		
	2000	1999	1998
Ordinary Income .....	\$ 1.58	1.48	1.36
Long-term 20% Capital Gain .....	-	-	.04
	<u>\$ 1.58</u>	<u>1.48</u>	<u>1.40</u>

Distributions paid per share of Series A Preferred for federal income tax purposes for the years ended December 31, 2000, 1999, and 1998 were \$2.25, \$2.25, and \$.725, respectively, paid as ordinary income with no return of capital.

Distributions paid per share of Series B Convertible Preferred for federal income tax purposes for the years ended December 31, 2000 and 1999 were \$2.188 and \$1.641, paid as ordinary income with no return of capital. No dividends were paid in 1998 on the Series B Preferred.

The Company's income differs for tax and financial reporting purposes principally because of (1) the timing of the deduction for the provision for possible losses and losses on investments, (2) the timing of the recognition of gains or losses from the sale of investments, (3) different depreciation methods and lives, and (4) mortgage loans having a different basis for tax and financial reporting purposes, thereby producing different gains upon collection of these loans.

#### (c) Income Recognition

Rental income from real estate operations is recognized on a straight-line basis.

Interest income on mortgage loans is recognized based on the accrual method unless a significant uncertainty of collection exists. If a significant uncertainty exists, interest income is recognized as collected. Certain mortgage loan discounts are amortized over the lives of the loans using a method that does not differ materially from the interest method.

The Company recognizes gains on sales of real estate in accordance with the principles set forth in Statement of Financial Accounting Standards No. 66 (SFAS 66), "Accounting for Sales of Real Estate." Upon closing of real estate transactions, the provisions of SFAS 66 require consideration for the transfer of rights of ownership to the purchaser, receipt of an adequate cash down payment from the purchaser and adequate continuing investment by the purchaser. If the requirements for recognizing gains have not been met, the sale and related costs are recorded, but the gain is deferred and recognized by the installment method as collections are received.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **(d) Real Estate Properties**

Real estate properties are carried at cost less accumulated depreciation. Cost includes the carrying amount of the Company's investment plus any additional consideration paid, liabilities assumed, costs of securing title (not to exceed fair market value in the aggregate) and improvements made subsequent to acquisition. Depreciation of buildings and other improvements, including personal property, is computed using the straight-line method over estimated useful lives of 25 to 40 years for buildings and 3 to 10 years for other improvements and personal property. Building improvements are capitalized, while maintenance and repair expenses are charged to expense as incurred. Significant renovations and improvements that extend the useful life of or improve the assets are capitalized. Geographically, the Company's investments are concentrated in the major sunbelt market areas of the southeastern and southwestern United States, primarily in the states of California, Florida, Texas and Arizona.

### **(e) 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.

### **(f) Investment in Real Estate Investment Trusts**

Marketable equity securities owned by the Company are categorized as available-for-sale securities, as defined by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized holding gains and losses are reflected as a net amount in a separate component of stockholders' equity until realized. Since the Company did not exercise significant influence over its investment in REITs, these investments were accounted for under the cost method. The costs of these investments were adjusted to fair market value with an equity adjustment to account for unrealized gains/losses as indicated above.

### **(g) Allowance for Possible Losses and Impairment Losses**

The Company measures impaired and restructured loans at the present value of expected future cash flows, discounted at the loan's effective interest rate or, as a practical expedient, at the loan's market price or the fair value of collateral if the loan is collateral dependent.

The Company applies SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by the Company be reviewed for impairment of value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This statement requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less selling costs.

### **(h) Amortization**

Debt origination costs are deferred and amortized using the straight-line method over the term of the loan. Leasing commissions are deferred and amortized using the straight-line method over the term of the lease.

### **(i) Goodwill**

In March 1998, EastGroup acquired Ensign Properties, Inc., the largest independent industrial developer in Orlando. A portion of the total acquisition price for Ensign included goodwill, which represents the excess of the purchase price and related costs over the fair value assigned to the net tangible assets. The Company amortizes goodwill on a straight-line basis over 20 years. The Company will periodically review the recoverability of goodwill. The measurement of possible impairment is based primarily on the ability to recover the balance of the unamortized basis. In management's opinion, no material impairment existed at December 31, 2000, 1999, and 1998. Amortization expense for goodwill was \$61,000 in 2000 and 1999 and \$51,000 in 1998.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (j) Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### (k) Reclassifications

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the 2000 presentation.

### (l) 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 year 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 shareholders by the weighted average number of common shares outstanding.

Diluted EPS represents the amount of earnings for the year 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 shareholders plus dividends on dilutive convertible preferred shares and limited partnership (LP) dividends 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. The dilutive effect of stock options and 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 assuming proceeds from the exercise of options are used to purchase common stock at the average market price during the period. The treasury stock method was also used assuming conversion of the convertible preferred stock.

### (m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

### (n) Stock Based Compensation

The Company applies SFAS No. 123, "Accounting for Stock-Based Compensation." This standard defines a fair value based method of accounting for an employee stock option or similar equity instrument. Companies are given the choice of either recognizing related compensation cost by adopting the fair value method, or to continue to use the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 (APB No. 25), "Accounting for Stock Issued to Employees," while supplementally disclosing the pro forma effect on net income and net income per share using the new measurement criteria. The Company elected to continue to follow the requirements of APB No. 25, and accordingly, there was no effect on the results of operations.

The Company also accounts for restricted stock in accordance with APB No. 25, and accordingly, compensation expense is recognized over the expected vesting period using the straight-line method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (o) Capitalized Development Costs

During the industrial development stage, costs associated with development (i.e., land, construction costs, interest expense during construction, property taxes, etc.) are aggregated into the total capitalization of the property. As the property becomes occupied, interest, depreciation and property taxes for the percentage occupied only is expensed as incurred. When the property becomes 80% occupied or one year after completion of the construction, whichever comes first, the property is no longer considered a development property and becomes an industrial property. When the property becomes classified as an industrial property, the entire property is depreciated accordingly, and interest and property taxes are expensed.

### (2) REAL ESTATE OWNED

At December 31, 2000, the Company is offering for sale the Nobel Business Center in Hercules, California with a carrying amount of \$2,393,000; the 109<sup>th</sup> Street Warehouse in Dallas, Texas with a carrying amount of \$976,000; the LA Corporate Center in Los Angeles, California with a carrying amount of \$6,334,000; the Ethan Allen Distribution Center in Los Angeles, California with a carrying amount of \$11,934,000; the Delp Distribution Center III in Memphis, Tennessee with a carrying amount of \$647,000; and 4.46 acres of land in the World Houston Business Park with a carrying amount of \$690,000. No loss is anticipated on the sale of these properties. The results of operations for real estate held for sale at December 31, 2000, amounted to \$1,820,000, \$1,586,000, and \$1,314,000, respectively, for the years ended December 31, 2000, 1999, and 1998. The results of operations for real estate held for sale at December 31, 1999, amounted to \$258,000 and \$293,000, respectively, for the years ended December 31, 1999 and 1998.

The Company is currently developing the following properties as detailed below:

#### Industrial Development

	Size at Completion (Unaudited) (Square feet)	Costs Incurred		Estimated Total Costs (Unaudited)
		For the 12 Months Ended 12/31/00	Cumulative as of 12/31/00	
		(In thousands)		
<b>Lease-Up:</b>				
Glenmont II Houston, Texas .....	104,000	\$ 2,448	2,916	3,780
Palm River North I & III Tampa, Florida .....	116,000	3,362	4,928	6,290
Westlake II Tampa, Florida .....	70,000	3,343	3,343	4,270
Sunport I Orlando, Florida .....	56,000	1,851	3,122	3,200
Beach Commerce Center Jacksonville, Florida .....	46,000	2,029	2,029	2,800
World Houston 11 Houston, Texas .....	126,000	3,135	3,721	5,460
Interstate Commons II Phoenix, Arizona .....	59,000	1,889	2,209	2,900
Total Lease-up .....	577,000	\$18,057	22,268	28,700

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Size at Completion (Unaudited) (Square feet)	Costs Incurred		Estimated Total Costs (Unaudited)
		For the 12 Months Ended 12/31/00	Cumulative as of 12/31/00	
		(In thousands)		
<b>Under Construction:</b>				
Techway Southwest I				
Houston, Texas .....	126,000	\$ 1,888	1,888	5,040
Kyrene II				
Tempe, Arizona .....	60,000	1,169	1,809	3,710
Walden Distribution Center I				
Tampa, Florida .....	90,000	442	779	4,240
Sunport Center II				
Orlando, Florida .....	60,000	762	762	3,500
Total Under Construction .....	336,000	4,261	5,238	16,490
<b>Prospective Development:</b>				
Phoenix, Arizona .....	40,000	237	237	2,000
Tucson, Arizona .....	70,000	299	299	3,500
Tampa, Florida .....	230,000	1,351	1,835	9,200
Orlando, Florida .....	339,000	1,723	1,723	18,900
Houston, Texas .....	1,017,000	5,593	5,593	45,300
Total Prospective Development .....	1,696,000	9,203	9,687	78,900
	2,609,000	\$31,521	37,193	124,090
<b>Development Transferred to Industrial Properties</b>				
<b>During Twelve Months Ended December 31, 2000:</b>				
John Young II				
Orlando, Florida .....	47,000	\$ 1,563	4,125	
Rampart Distribution Center III				
Denver, Colorado .....	92,000	982	5,736	
Sample 95 II				
Pompano, Florida .....	70,000	556	4,057	
Chestnut Business Center				
City of Industry, California .....	75,000	785	5,139	
Palm River North II				
Tampa, Florida .....	96,000	1,996	5,142	
Westlake I				
Tampa, Florida .....	70,000	534	4,836	
Glenmont I				
Houston, Texas .....	108,000	998	4,204	
Main Street				
Carson, California .....	106,000	1,726	5,709	
Total Transferred to Industrial .....	664,000	\$ 9,140	38,948	

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of gains (losses) on real estate investments for the years ended December 31, 2000, 1999 and 1998 follows:

### Gains (Losses) on Real Estate Investments

	<i>Basis</i>	<i>Net Sales Price</i>	<i>Recognized Gain (Loss)</i>
	<i>(In thousands)</i>		
<b>2000</b>			
Real estate properties:			
LeTourneau Center of Commerce .....	\$ 1,592	1,593	1
8150 Leesburg Pike – deferred gain .....	(94)	-	94
La Vista Crossing Apartments .....	6,472	14,528	8,056
Estelle land .....	429	1,049	620
	<u>\$ 8,399</u>	<u>17,170</u>	<u>8,771</u>
 1999			
Real estate properties:			
8150 Leesburg Pike Office Building .....	\$ 13,917	28,082	14,165
2020 Exchange .....	867	997	130
Waldenbooks .....	21,360	21,077	(283)
West Palm write-down .....	448	-	(448)
Mortgage loans:			
Country Club – deferred gain .....	(1,127)	-	1,127
Gainesville – deferred gain .....	(388)	-	388
Country Club land purchase-leaseback .....	500	500	-
Estelle land .....	137	367	230
LNH land .....	19	137	118
Other .....	-	(70)	(70)
	<u>\$ 35,733</u>	<u>51,090</u>	<u>15,357</u>
 1998			
Real estate properties:			
Hampton House Apartments .....	\$ 5,977	6,611	634
Sutton House Apartments .....	7,696	9,448	1,752
Doral Club Apartments .....	5,900	9,046	3,146
Grande Pointe Apartments .....	5,857	7,104	1,247
401 Exchange Distribution Center .....	621	666	45
East Maricopa Distribution Center .....	625	625	-
Columbia Place Office Building .....	11,524	13,913	2,389
Park Ridge Distribution Center .....	3,154	3,154	-
LNH Land .....	9	53	44
Jacksonville – deferred gain .....	(383)	-	383
Other .....	(73)	-	73
	<u>\$ 40,907</u>	<u>50,620</u>	<u>9,713</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following schedule indicates approximate future minimum rental receipts under noncancelable leases for the real estate properties by year as of December 31, 2000 (in thousands):

### Future Minimum Rental Receipts Under Noncancelable Leases

<u>Years Ended December 31,</u>	
2001.....	\$ 73,110
2002.....	60,848
2003.....	47,562
2004.....	31,853
2005.....	20,920
Thereafter .....	51,176
Total minimum receipts.....	<u>\$ 285,469</u>

### Ground Leases

As of December 31, 2000, the Company owned two properties in Florida and two properties in Texas that are subject to ground leases. These leases have terms of 40 to 50 years, expiration dates of August 2031 to November 2037, and renewal options of 15 to 35 years. Total lease expense was \$567,000 in 2000, \$511,000 in 1999 and \$490,000 in 1998. Payments are subject to increases at 5 to 10 year intervals based upon the agreed or appraised fair market value of the leased premises on the adjustment date. The following schedule indicates approximate future minimum lease payments for these properties by year as of December 31, 2000 (in thousands):

### Future Minimum Ground Lease Payments

<u>Years Ended December 31,</u>	
2001.....	\$ 594
2002.....	594
2003.....	594
2004.....	594
2005.....	594
Thereafter .....	17,620
Total minimum payments .....	<u>\$ 20,590</u>

### (3) MORTGAGE LOANS RECEIVABLE

A summary of mortgage loans follows:

	<u>December 31,</u>	
	<b>2000</b>	1999
	<i>(In thousands)</i>	
First mortgage loans:		
Industrial (2 loans in 2000 and 1999) .....	\$ 9,174	6,722
Undeveloped Land (1 loan in 1999) .....	-	1,965
Other (1 loan in 2000 and 1999) .....	17	19
	<u>\$ 9,191</u>	<u>8,706</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Included in the two industrial loans held at December 31, 2000 is \$4,565,000 for World Houston 10 which was repaid in January 2001. The weighted average interest rate on the remaining loans is approximately 9.0%.

Deferred gains recognized on the payoff of mortgage notes receivable were zero in 2000, \$1,515,000 in 1999 and \$383,000 in 1998.

### (4) INVESTMENT IN REAL ESTATE INVESTMENT TRUSTS

The investment in real estate investment trusts (REITs) consists of the following:

	December 31,			
	2000		1999	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
(In thousands)				
Franklin Select Realty Trust.....	\$ -	-	5,130	5,844
Pacific Gulf Properties.....	-	2,983	9,910	9,864
Other .....	4,964	5,085	-	-
	<b>\$ 4,964</b>	<b>8,068</b>	15,040	15,708

During 2000, the Company received liquidating dividends from Franklin Select Realty Trust and the first liquidating dividend from Pacific Gulf Properties. The liquidating dividends received reduced the basis in these investments to zero with the remainder recorded as gain on securities in the accompanying 2000 consolidated statement of income. Pacific Gulf Properties has announced that it is selling most of its assets and any further distributions received by the Company will be recorded as realized gains when received.

### (5) NOTES PAYABLE TO BANKS

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 8.00% on \$92,000,000 at December 31, 2000 and 7.50% on \$77,000,000 and 7.44% on \$8,000,000 at December 31, 1999. An unused facility fee of .25% is also assessed on this note.

EastGroup has a one-year \$10,000,000 unsecured revolving credit facility with Chase Bank of Texas that matured in January 2001. The loan was amended in January 2001 to reflect a new maturity date of January 2002. The interest rate is based on Chase Bank of Texas, National Association's prime rate less .75% and was 8.75% on \$10,000,000 at December 31, 2000 and 7.75% on \$10,000,000 at December 31, 1999.

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 determined at the time of any advances by the Company and Chase. At December 31, 2000 and 1999, the outstanding balance for this loan was zero.

Total loan commitment fees of \$37,500 were paid in 2000, \$37,500 in 1999, and \$136,500 in 1998.

Average bank borrowings were \$107,221,000 in 2000 compared to \$104,335,000 in 1999 with average interest rates of 7.83% in 2000 compared to 6.56% in 1999. Amortization of bank loan costs was \$264,000 in 2000 and \$251,000 in 1999. Average interest rates including amortization of loan costs were 8.07% for 2000 and 6.80% for 1999.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (6) MORTGAGE NOTES PAYABLE

A summary of mortgage notes payable follows:

Property	Rate	P&I Payment	Maturity Date	Carrying Amount Of Securing Real Estate at	Balance at December 31,	
				December 31, 2000	2000	1999
(In thousands)						
University Business Center.....	9.060%	\$ 85,841	04/01/00	\$ -	Repaid 04/00	8,477
Northwest Point Business Park .....	7.750%	32,857	03/01/01	6,079	3,837	3,930
University Business Center (120 & 130 Cremona)	7.450%	74,235	02/28/02	10,760	8,380	8,637
Estrella Distribution Center .....	9.250%	23,979	01/02/03	4,975	2,461	2,518
Deerwood Distribution Center.....	8.375%	16,339	07/01/03	3,348	1,516	1,588
Eastlake Distribution Center .....	8.500%	57,115	07/05/04	9,247	4,164	4,480
56 <sup>th</sup> Street Commerce Park .....	8.875%	21,816	08/01/04	3,753	1,987	2,069
Chamberlain Distribution Center.....	8.750%	21,376	01/01/05	3,715	2,372	2,423
Exchange Distribution Center .....	8.375%	21,498	08/01/05	3,002	2,175	2,247
Westport Commerce Center .....	8.000%	28,021	08/01/05	5,042	2,898	2,998
LaVista Apartments.....	8.688%	48,667	09/01/05	-	Repaid 12/00	5,607
LakePointe Business Park .....	8.125%	81,675	10/01/05	9,526	10,437	10,563
Jetport, JetPort 515 & Jetport 516.....	8.125%	33,769	10/01/05	5,363	3,487	3,604
Huntwood Associates.....	7.990%	100,250	08/22/06	16,748	12,172	12,393
Wiegman Associates.....	7.990%	46,269	08/22/06	8,557	5,618	5,720
World Houston 1 & 2 .....	7.770%	33,019	04/15/07	5,788	4,436	4,485
E. University, 7 <sup>th</sup> St, 55 <sup>th</sup> St, Ethan Allen.....	8.060%	96,974	06/26/07	23,390	11,905	12,100
Lamar II Distribution Center .....	6.900%	16,925	12/01/08	6,390	2,090	2,147
Dominguez, Kingsview, Walnut, Washington, Industry and Shaw .....	6.800%	358,770	03/01/09	61,197	44,945	46,149
Auburn Facility.....	8.875%	64,885	09/01/09	15,043	4,696	5,041
America Plaza, Central Green, World Houston 3&4, 5, 6, 7&8, 9 .....	7.920%	191,519	05/10/11	32,040	26,282	-
University Business Center (125 & 175 Cremona)	7.980%	88,607	06/01/12	14,768	11,413	-
Kyrene Distribution Center.....	9.000%	11,246	07/01/14	2,744	1,053	1,091
North Shore Improvement Bonds .....	6.3-7.750%	Semiannual	09/02/16	2,393	385	398
				\$ 253,868	168,709	148,665

Approximate principal payments due during the next five years as of December 31, 2000 are as follows (in thousands):

2001 .....	\$ 7,920
2002 .....	12,452
2003 .....	8,248
2004 .....	8,993
2005 .....	22,756

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (7) STOCKHOLDERS' EQUITY

#### Management Incentive Plan-Stock Options/Incentive Awards

In 1994, the Company adopted the 1994 Management Incentive Plan, and the Plan was amended in 1999. As amended, the Plan includes stock options (50% vested after one year and the other 50% after two years), an annual incentive award and restricted stock awards.

Stock option activity for the 1994 plan is as follows:

	Years Ended December 31,					
	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year .....	861,423	\$ 17.680	645,633	16.600	668,758	16.490
Granted .....	50,750	20.766	239,000	20.320	7,000	20.670
Exercised .....	(108,000)	16.578	(22,210)	14.340	(22,935)	14.170
Expired .....	(89,250)	19.809	(1,000)	22.000	(7,190)	18.010
Outstanding at end of year .....	<u>714,923</u>	<u>17.801</u>	<u>861,423</u>	<u>17.680</u>	<u>645,633</u>	<u>16.600</u>
Exercisable at end of year .....	575,798	\$ 17.156	618,923	16.640	497,391	15.450
Available for grant at end of year.....	292,705	-	445,093	-	29,388	-
Price range of options:						
Outstanding .....	\$12.670-22.375		12.000-22.375		12.000-22.375	
Exercised .....	12.000-22.000		12.000-18.170		12.670-17.920	
Exercisable .....	12.670-22.375		12.000-22.375		12.000-22.375	

The weighted average contractual life of the options outstanding as of December 31, 2000 was 6.43 years.

The annual incentive award program began in 1995 and the Compensation Committee determines awards based on actual funds from operations per share ("FFO") compared to goals set for the year. The 2000, 1999 and 1998 awards were expensed in these years and approximated \$448,000, \$435,000 and \$469,000, respectively. The awards were payable 60% in cash and 40% in stock of the Company for 2000 and 1999 and two-thirds in cash and one-third in stock in 1998.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On December 5, 2000, under the 1994 Management Incentive Plan, the Compensation Committee granted 181,250 shares of restricted stock to all employees, effective January 1, 2000. The purpose of the plan is to act as a retention device since it allows participants to benefit from dividends as well as potential stock appreciation. The stock price on the grant date was \$20.50. The restricted period for the stock is 10 years and vesting is 20% at the end of the sixth year through the tenth year or, if certain performance goals are achieved, vesting could reach up to 40% at the end of the fourth year with 10% at the end of the fifth year through the tenth year. The Company recorded \$3,716,000 as additional paid-in capital when the shares were granted, offset by unearned compensation of the same amount. The unearned compensation was deducted from stockholders' equity and is being amortized 10% each year over the restricted period. Compensation expense of \$372,000 was recognized in 2000. During the restricted period, the Company will accrue dividends and will hold the certificates for the shares; however, the employee can vote the shares. Share certificates and dividends will be delivered to the employee as they vest.

### Directors Stock Option Plan

The Company has a Directors Stock Option Plan, as amended in 1994, under which an aggregate of 150,000 shares of common stock were reserved for issuance upon exercise of any options granted. An additional 150,000 shares were reserved in 2000. Under the Directors plan, each Non-Employee Director is granted an initial 7,500 options and 2,250 additional options on the date of any Annual Meeting at which the Director is reelected to the Board.

Stock option activity for the Director plan is as follows:

	Years Ended December 31,					
	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year .....	96,750	\$15.780	78,000	14.710	70,500	13.300
Granted .....	13,500	21.750	18,750	20.250	16,500	20.625
Exercised .....	(14,250)	11.695	-	-	(6,750)	12.830
Expired .....	-	-	-	-	(2,250)	19.375
Outstanding at end of year .....	96,000	17.231	96,750	15.780	78,000	14.710
Exercisable at end of year .....	96,000	\$17.231	96,750	15.780	78,000	14.710
Available for grant at end of year .....	143,250	-	6,750	-	25,500	-
Price range of options:						
Outstanding .....	\$11.250-21.750		10.670-20.625		10.670-20.625	
Exercised .....	10.670-14.580		-		11.250-14.580	
Exercisable .....	11.250-21.750		10.670-20.625		10.670-20.625	

The weighted average contractual life of the options outstanding as of December 31, 2000 was 6.45 years.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Series A 9.00% Cumulative Redeemable Preferred Stock**

In June 1998, EastGroup sold 1,725,000 shares of Series A 9.00% Cumulative Redeemable Preferred Stock at \$25.00 per share in a public offering. Net proceeds of approximately \$41,357,000 were used to repay advances outstanding on the Company's line of credit. The preferred stock, which may be redeemed by the Company at \$25.00 per share, plus accrued and unpaid dividends, on or after June 19, 2003, has no stated maturity, sinking fund or mandatory redemption and is not convertible into any other securities of the Company.

The Company declared dividends per share of Series A Preferred of \$2.25, \$2.25 and \$1.20 in 2000, 1999 and 1998, respectively.

### **Series B 8.75% Cumulative Convertible Preferred Stock**

In September 1998, EastGroup entered into an agreement with Five Arrows Realty Securities II, L.L.C. (Five Arrows), an investment fund managed by Rothschild Realty, Inc., a member of the Rothschild Group, providing for the sale of 2,800,000 shares of Series B 8.75% Cumulative Convertible Preferred Stock at a net price of \$24.50 per share. In December 1998, EastGroup sold \$10,000,000 of the Series B Preferred Stock to Five Arrows. The Company sold the remaining \$60,000,000 to Five Arrows in September 1999. In connection with this offering, EastGroup has entered into certain related agreements with Five Arrows, providing, among other things, for certain registration rights with respect to the Series B Preferred Stock.

The Series B Preferred Stock, which is convertible into common stock at a conversion price of \$22.00 per share, is entitled to quarterly dividends in arrears equal to the greater of \$0.547 per share or the dividend on the number of shares of common stock into which a share of Series B Preferred Stock is convertible.

The Company declared dividends per share of Series B Preferred of \$2.188 in both 2000 and 1999.

### **Common Stock Repurchase Plan**

During the third quarter 1998, EastGroup's Board of Directors authorized the repurchase of up to 500,000 shares of its outstanding common stock. In September 1999, EastGroup's Board of Directors authorized the repurchase of an additional 500,000 shares of its outstanding common stock and an additional 500,000 shares in December 1999. The shares may be purchased from time to time in the open market or in privately negotiated transactions. For the year ended December 31, 2000, the Company repurchased 10,000 shares for \$190,000 and a total of 827,700 shares for \$14,170,000 (an average of \$17.12 per share) since September 30, 1998.

### **Shareholder Rights Plan**

In December 1998, EastGroup adopted a Shareholder Rights Plan designed to enhance the ability of all of the Company's stockholders to realize the long-term value of their investment. Under the Plan, Rights were distributed as a dividend on each share of Common Stock (one Right for each share of Common Stock) held as of the close of business on December 28, 1998. A Right was also delivered with all shares of Common Stock issued after December 28, 1998 and 1.1364 Rights were delivered with all shares of EastGroup's Series B Cumulative Convertible Preferred Stock issued after December 28, 1998. The Rights will expire at the close of business on December 3, 2008.

Each whole Right will entitle the holder to buy one one-thousandth (1/1000) of a newly issued share of EastGroup's Series C Preferred Stock at an exercise price of \$70.00. The Rights attach to and trade with the shares of the Company's Common Stock and Series B Preferred Stock. No separate Rights Certificates will be issued unless an event triggering the Rights occurs. The Rights will detach from the Common Stock and Series B Preferred Stock and will initially become exercisable for shares of Series C Preferred Stock if a person or group acquires beneficial ownership of, or commences a tender or exchange offer which would result in such person or group beneficially owning 15% or more of EastGroup's Common Stock, except through a tender or exchange offer for all shares which the Board determines to be fair and otherwise in the best interest of EastGroup and its shareholders. The Rights will also detach from the Common Stock and Series B Preferred Stock if the Board determines that a person holding at least 9.8% of EastGroup's Common Stock intends to cause EastGroup to take certain actions adverse to it and its shareholders or that such holder's ownership would have a material adverse effect on EastGroup.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If any person becomes the beneficial owner of 15% or more of EastGroup's Common Stock and the Board of Directors does not within 10 days thereafter redeem the Rights, or a 9.8% holder is determined by the Board to be an adverse person, each Right not owned by such person or related parties will then enable its holder to purchase, at the Right's then-current exercise price, EastGroup Common Stock (or, in certain circumstances as determined by the Board, a combination of cash, property, common stock or other securities) having a value of twice the Right's exercise price.

Under certain circumstances, if EastGroup is acquired in a merger or similar transaction with another person, or sells more than 50% of its assets, earning power or cash flow to another entity, each Right that has not previously been exercised will entitle its holder to purchase, at the Right's then-current exercise price, common stock of such other entity having a value of twice the Right's exercise price.

EastGroup will generally be entitled to redeem the Rights at \$0.0001 per Right at any time until the 10<sup>th</sup> day following public announcement that a 15% position has been acquired, or until the Board has determined a 9.8% holder to be an adverse person. Prior to such time, the Board of Directors may extend the redemption period.

### Dividend Reinvestment Plan

The Company has a dividend reinvestment plan that allows stockholders to reinvest cash distributions in new shares of the Company.

### Fair Value of Stock Options

In accordance with SFAS No. 123, the following additional disclosures are required related to options granted after January 1, 1995. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions used for 2000, 1999, and 1998, respectively: risk-free interest rates of 5.04%, 6.49%, and 5.54%; dividend yields of 12.13%, 9.75%, and 7.64%; volatility factors of 19.3%, 17.0%, and 15.5%, and expected option lives of five years for all years presented.

The Company applies APB No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation cost been determined based on fair value at the grant dates for awards under the plan consistent with the method prescribed by SFAS No. 123, the Company's net income and net income per basic share would have been reduced to the pro forma amounts indicated below:

	2000	1999	1998
	<i>(In thousands, except per share data)</i>		
Net income available to common shareholders as reported .....	\$ 26,504	32,229	27,266
Net income available to common shareholders pro forma .....	26,414	32,058	27,056
Net income per basic share – as reported .....	1.70	2.01	1.67
Net income per basic share – pro forma .....	1.69	2.00	1.66
Weighted average fair value of options granted during year .....	.55	.97	1.20

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Earnings Per Share

The Company applies SFAS No. 128, "Earnings Per Share," which requires companies to present basic EPS and diluted EPS. Reconciliations of the numerators and denominators in the basic and diluted EPS computations are as follows:

#### Reconciliations of Numerators and Denominators

	2000	1999	1998
	<i>(In thousands)</i>		
<b>Basic EPS Computation</b>			
Numerator-net income available to common shareholders .....	<b>\$ 26,504</b>	32,229	27,266
Denominator-weighted average shares outstanding .....	<b>15,623</b>	16,046	16,283
<b>Diluted EPS Computation</b>			
Numerator-net income available to common shareholders plus convertible preferred stock dividends (\$2,246 in 1999) and limited partnership distributions (\$18 in 2000 and \$48 in 1999) .....	<b>\$ 26,522</b>	34,523	27,266
Denominator:			
Weighted average shares outstanding .....	<b>15,623</b>	16,046	16,283
Common stock options .....	<b>147</b>	112	140
Nonvested restricted stock .....	<b>13</b>	-	-
Limited partnership units .....	<b>15</b>	32	9
Convertible preferred stock .....	-	1,172	-
Total Shares .....	<b>15,798</b>	17,362	16,432

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 years ended December 31, 2000 and 1998 due to its antidilutive effect.

### Comprehensive Income

Comprehensive income comprises net income plus all other changes in equity from nonowner sources. The components of comprehensive income for 2000, 1999 and 1998 are presented in the Company's Consolidated Statements of Stockholders' Equity. The unrealized change in investment securities in 2000 and 1999 is net of the 2000 and 1999 realized gains on real estate investment trust securities included in net income as shown below:

	2000	1999
	<i>(In thousands)</i>	
Other comprehensive income:		
Unrealized holding gains during the period .....	<b>\$ 4,590</b>	91
Less reclassification adjustment for gains included in net income .....	<b>(2,154)</b>	(30)
Net unrealized change in investment securities .....	<b>\$ 2,436</b>	61

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (8) ACQUISITIONS

#### Ensign Properties, Inc. Acquisition

In March 1998, EastGroup acquired Ensign Properties, Inc., an independent industrial developer in Orlando. This acquisition, which was accounted for under the purchase method of accounting, allowed EastGroup to become self-managed in its Florida markets. The purchase price of the acquisition amounting to approximately \$1,800,000 was allocated primarily to goodwill, development costs, leasing commissions and other prepaid costs. The operating results of Ensign Properties, Inc. have been included in the consolidated statements of income subsequent to the date of acquisition. The pro forma impact related to the acquisition would be immaterial to the consolidated financial statements.

#### Meridian VIII Acquisition

On June 1, 1998, the merger of Meridian VIII into a wholly-owned subsidiary of EastGroup was completed. The acquisition was accounted for by using the purchase method of accounting. For financial reporting purposes, the acquired assets of Meridian VIII were assigned new cost basis amounts based on the allocation of the purchase price of the assets. In general, the purchase price to the Company consisted of the cash paid for Meridian VIII and the Company's previous investment in Meridian VIII. The shares of Meridian VIII owned by the Company were retired at the merger date. The operating results of Meridian VIII have been included in the consolidated statements of income subsequent to the date of acquisition.

Pursuant to the terms of its merger agreement with Meridian VIII, EastGroup's wholly-owned subsidiary exercised options to acquire a sufficient number of common and preferred shares of Meridian VIII such that it owned 90% of all outstanding common and preferred shares. Prior to the exercise of the options, EastGroup's subsidiary beneficially owned approximately 83.2% of the outstanding voting securities of Meridian VIII. Following the exercise of the options, Meridian VIII was merged into EastGroup's wholly-owned subsidiary, with all outstanding common shares of Meridian VIII not held by EastGroup receiving, as a result of the merger, \$8.50 per share in cash and all preferred shares of Meridian VIII not held by EastGroup receiving \$10.00 per share in cash. The consideration paid to the remaining common and preferred shareholders of Meridian VIII was equivalent to that paid by EastGroup in its tender offer for Meridian VIII's common and preferred shares which was completed in April 1998. The total purchase price to EastGroup was approximately \$102,000,000 which included the assumption of Meridian VIII's outstanding indebtedness. As a result of the merger, Meridian VIII's common and preferred shares have been removed from registration under the Securities Exchange Act of 1934 and ceased to be listed on the American Stock Exchange effective as of June 1, 1998.

The increase in net assets at the acquisition date, based on estimated relative fair values, resulting from the acquisition was as follows (in thousands):

Real estate properties .....	\$ 96,366
Cash.....	6,118
Accrued interest and other receivables .....	119
Other assets .....	124
Mortgage notes and interest payable .....	(33,422)
Accounts payable and other liabilities .....	(871)
Total.....	<u>\$ 68,434</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The purchase price of the net assets acquired consisted of the following (in thousands):

Acquisition of Meridian Shares .....	\$ 52,760
Merger costs.....	1,569
Prior investment in Meridian .....	14,105
Total.....	<u>\$ 68,434</u>

The following unaudited pro forma combined results of operations give effect to the Meridian VIII merger as if it had occurred on January 1, 1998:

	<u>1998</u>
	<i>(In thousands, except per share amounts)</i>
Revenues .....	<u>\$ 80,022</u>
Net income available to common shareholders .....	<u>\$ 25,566</u>
Net income per basic share .....	<u>\$ 1.57</u>
Shares used in computation .....	<u>16,283</u>
Net income per diluted share.....	<u>\$ 1.56</u>
Shares used in computation .....	<u>16,432</u>

In management's opinion, the unaudited pro forma combined results of operations are not necessarily indicative of the actual results that would have occurred had the transaction been consummated at the beginning of 1998 or of future operations of the combined companies under the ownership and management of the Company.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (9) QUARTERLY RESULTS OF OPERATIONS – UNAUDITED

	Quarters Ended							
	2000				1999			
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
	<i>(In thousands, except per share data)</i>							
Revenues.....	\$ 23,141	23,606	24,601	26,755	20,885	21,098	21,504	22,749
Expenses .....	(16,177)	(17,211)	(17,667)	(19,307)	(15,373)	(15,469)	(15,865)	(16,113)
Income before gain (loss) on real estate investments .....	6,964	6,395	6,934	7,448	5,512	5,629	5,639	6,636
Gain (loss) on real estate investments.....	1	620	94	8,056	1,451	224	13,978	(296)
Income before cumulative effect of change in accounting principle.....	6,965	7,015	7,028	15,504	6,963	5,853	19,617	6,340
Cumulative effect of change in accounting principle.....	-	-	-	-	(418)	-	-	-
Net income.....	6,965	7,015	7,028	15,504	6,545	5,853	19,617	6,340
Preferred dividends .....	(2,502)	(2,502)	(2,502)	(2,502)	(1,189)	(1,189)	(1,246)	(2,502)
<b>Net income available to common shareholders.....</b>	<b>\$ 4,463</b>	<b>4,513</b>	<b>4,526</b>	<b>13,002</b>	<b>5,356</b>	<b>4,664</b>	<b>18,371</b>	<b>3,838</b>
<b>BASIC PER SHARE DATA</b>								
Net income available to common shareholders.....	\$ 0.29	0.29	0.29	0.83	0.33	0.29	1.15	0.24
Weighted average shares outstanding .....	15,569	15,624	15,643	15,656	16,303	16,076	16,006	15,805
<b>DILUTED PER SHARE DATA</b>								
Net income available to common shareholders.....	\$ 0.28	0.29	0.29	0.76	0.33	0.29	1.11	0.24
Weighted average shares outstanding .....	15,732	15,785	15,828	19,022	16,429	16,245	16,724	15,941

The above quarterly earnings per share calculations are based on the weighted average number of common shares outstanding during each quarter for earnings per common share and the weighted average number of outstanding common shares and common share equivalents during each quarter for the earnings per common share, assuming dilution. The annual earnings per share calculations are based on the weighted average number of common shares outstanding during each year for earnings per common share and the weighted average number of outstanding common shares and common share equivalents during each year for earnings per common share, assuming dilution.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (10) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2000 and 1999. SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties.

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(In thousands)</i>				
Financial Assets				
Cash and cash equivalents .....	<b>\$ 2,861</b>	<b>2,861</b>	2,657	2,657
Investment in real estate investment trusts .....	<b>8,068</b>	<b>8,068</b>	15,708	15,708
Mortgage loans receivable .....	<b>9,191</b>	<b>9,193</b>	8,706	8,604
Financial Liabilities				
Mortgage notes payable .....	<b>168,709</b>	<b>175,729</b>	148,665	142,716
Notes payable to banks .....	<b>102,000</b>	<b>102,000</b>	95,000	95,000

Carrying amounts shown in the table are included in the balance sheet under the indicated captions.

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

*Cash and Cash Equivalents:* The carrying amounts approximate fair value because of the short maturity of those instruments.

*Investment in Real Estate Investment Trusts:* The carrying amount is the fair value of this equity investment based on quoted market prices.

*Mortgage Loans:* The fair value of performing mortgage loans is either estimated using discounted cash flows at current interest rates for loans with similar terms and maturities or based on the estimated value of the underlying collateral adjusted for the borrower's payment history and financial strength. The fair value for nonperforming loans is based on the underlying collateral value.

*Mortgage Notes Payable:* The fair value of the Company's mortgage notes payable 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.

*Notes Payable to Banks:* The carrying amounts approximate fair value because of the variable rates of interest on the debt.

### (11) SEGMENT REPORTING

The Company's reportable segments consist of industrial properties and an "other" category that includes office buildings, apartments 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. Effective January 1, 2000, NAREIT clarified the definition of FFO to include gains from sales of nondepreciable real estate (land). Gains on land for 2000 have been included in FFO and gains on land from previous years have not been included in FFO. Gains on land were \$348,000 for 1999 and \$44,000 for 1998. The Company uses FFO as a measure of the performance of its industry as an equity real estate investment trust. 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) 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 fiscal years reported PNOI by operating segment, followed by reconciliations of PNOI to FFO and FFO to net income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### PROPERTY REVENUES:

Industrial .....	
Other .....	

### PROPERTY EXPENSES:

Industrial .....	
Other .....	

### PROPERTY NET OPERATING INCOME:

Industrial .....	
Other .....	

### TOTAL PROPERTY NET OPERATING INCOME

Gain on securities .....	
Gain on nondepreciable real estate investments .....	
Other income .....	
Interest expense .....	
General and administrative .....	
Minority interest in earnings .....	
Dividends on Series A preferred shares .....	
Limited partnership unit distributions .....	

### FUNDS FROM OPERATIONS

Depreciation and amortization .....	
Share of joint venture depreciation and amortization .....	
Gain on depreciable real estate investments .....	
Limited partnership unit distributions .....	
Dividends on Series B convertible preferred shares .....	
Cumulative effect of change in accounting principle .....	

### NET INCOME AVAILABLE TO COMMON SHAREHOLDERS

Dividends on preferred shares .....	
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### NET INCOME

### ASSETS:

Industrial .....	
Other .....	

Less accumulated depreciation .....	
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Real estate held for sale .....	
Less accumulated depreciation .....	

Mortgage loans .....	
Investment in real estate investment trusts .....	
Cash .....	
Other assets .....	

### TOTAL ASSETS

### REAL ESTATE INVESTMENT CAPITAL EXPENDITURES

Acquisitions	
Industrial .....	
Other .....	
Developments	
Industrial .....	
Other .....	

2000	1999	1998
<i>(In thousands)</i>		
<b>\$ 90,176</b>	77,677	61,417
<b>3,730</b>	5,643	12,895
<b>93,906</b>	83,320	74,312
<b>(21,055)</b>	(17,723)	(14,414)
<b>(1,304)</b>	(2,218)	(4,914)
<b>(22,359)</b>	(19,941)	(19,328)
<b>69,121</b>	59,954	47,003
<b>2,426</b>	3,425	7,981
<b>71,547</b>	63,379	54,984
<b>2,154</b>	30	-
<b>620</b>	-	-
<b>2,043</b>	2,886	2,416
<b>(18,570)</b>	(17,688)	(16,948)
<b>(5,607)</b>	(4,519)	(3,771)
<b>(535)</b>	(674)	(757)
<b>(3,880)</b>	(3,880)	(2,070)
<b>18</b>	48	-
<b>47,790</b>	39,582	33,854
<b>(23,449)</b>	(20,239)	(16,625)
<b>158</b>	241	324
<b>8,151</b>	15,357	9,713
<b>(18)</b>	(48)	-
<b>(6,128)</b>	(2,246)	-
<b>-</b>	(418)	-
<b>26,504</b>	32,229	27,266
<b>10,008</b>	6,126	2,070
<b>\$ 36,512</b>	38,355	29,336
<b>\$ 668,053</b>	616,078	532,869
<b>-</b>	6,919	15,762
<b>668,053</b>	622,997	548,631
<b>(66,492)</b>	(46,829)	(34,042)
<b>601,561</b>	576,168	514,589
<b>26,602</b>	18,051	25,620
<b>(3,628)</b>	(4,750)	(8,794)
<b>22,974</b>	13,301	16,826
<b>9,191</b>	8,706	8,814
<b>8,068</b>	15,708	5,737
<b>2,861</b>	2,657	2,784
<b>21,550</b>	15,611	18,798
<b>\$ 666,205</b>	632,151	567,548
<b>\$ 13,628</b>	57,672	178,163
<b>-</b>	-	-
<b>40,661</b>	45,846	25,511
<b>-</b>	-	-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (12) ACCOUNTING CHANGE

#### Organization Costs

In April 1998, Statement of Position (SOP) No. 98-5, "Reporting on the Costs of Start-Up Activities," was issued. This SOP provides guidance on the financial reporting of start-up costs and organization costs, and requires that these costs be expensed as incurred effective for fiscal years beginning after December 15, 1998. Unamortized organization costs of \$418,000 were written off in first quarter 1999 and accounted for as a cumulative effect of a change in accounting principle. The accounting change reduced basic and diluted earnings per share \$.03 and \$.02, respectively, in 1999.

### (13) SUBSEQUENT EVENTS

Subsequent to December 31, 2000, EastGroup purchased World Houston 10 (107,000 square feet) for \$5,712,000. The purchase was funded with cash escrows from tax deferred exchange transactions. As part of this transaction, the seller repaid \$4,682,000 to the Company on the outstanding mortgage loan receivable and accrued interest for the World Houston 10 note.

### (14) RELATED PARTY TRANSACTIONS

EastGroup and Parkway Properties, Inc. currently share the services and expenses of the Company's Chairman of the Board and his administrative assistant.

In July 1999, EastGroup acquired the remaining 25% ownership interests in Jetport Commerce Park and 56<sup>th</sup> Street Commerce Park in Tampa from our partner, an officer of the Company, Anthony J. Bruno, for \$3,588,000 giving the Company 100% ownership of these two complexes.

# shareholder information

## CORPORATE HEADQUARTERS

300 One Jackson Place  
188 East Capitol Street  
Jackson, Mississippi 39201  
601-354-3555 (phone)  
601-352-1441 (fax)  
www.eastgroup.net  
investor@eastgroup.net

## REGIONAL OFFICES

EastGroup Property Services, LLC  
7003 Presidents Drive, Suite 800  
Orlando, Florida 32809  
407-251-7075 (phone)  
407-854-7167 (fax)

EastGroup Properties, Inc.  
2200 East Camelback Road, Suite 210  
Phoenix, AZ 85016  
602-840-8600 (phone)  
602-840-8602 (fax)

## REGISTRAR AND TRANSFER AGENT

Shareholders with questions concerning stock certificates, account information, dividend payments or stock transfers should contact EastGroup's transfer agent:  
First Chicago Trust Company of New York, a division of EquiServe  
Post Office Box 2500  
Jersey City, NJ 07303-2500  
800-446-2617 (U.S. and Canada)  
201-324-0498 (Outside U.S. and Canada)  
201-222-4955 (Hearing impaired)  
www.equiserve.com

## DIVIDEND REINVESTMENT PLAN

EastGroup Properties Dividend Reinvestment Plan is a simple and convenient way to buy shares of EastGroup Properties common stock by reinvesting dividends without a brokerage commission. If you hold common stock shares registered in your name, questions pertaining to the Plan should be directed to the Transfer Agent. If your common stock shares are not registered in your name but held in your brokerage account, contact your brokerage firm or other nominee for more information.

## ANNUAL MEETING

The annual shareholders meeting of EastGroup Properties will be held at 9:00 a.m. (CDT) on Monday, June 4, 2001, at the EastGroup offices in Jackson, Mississippi.

## AUDITORS

KPMG LLP  
1100 One Jackson Place  
188 East Capitol Street  
Jackson, Mississippi 39201

## LEGAL COUNSEL

Jaeckle Fleischmann & Mugal, LLP  
Fleet Bank Building  
Twelve Fountain Plaza  
Buffalo, New York 14202-2292

## STOCK MARKET INFORMATION



New York Stock Exchange (NYSE)  
Ticker Symbol: EGP

## MEMBER



National Association of Real Estate  
Investment Trusts

A copy of the annual report filed with the Securities and Exchange Commission on Form 10-K is available without charge upon written request to the Company's Secretary,  
Post Office Box 22728, Jackson, Mississippi 39225-2728.

www.eastgroup.net

### THE OFFICERS

Top Row (left to right) **WILLIAM D. PETSAS** Senior Vice President **BILL GRAY** CPA, Vice President **ANTHONY A. RUFRANO** Vice President **DAVID H. HOSTER II** President, Chief Executive Officer and Director **LELAND R. SPEED** Chairman **BRUCE CORKERN** CPA, Senior Vice President and Controller **BRENT W. WOOD** Vice President Bottom Row (left to right) **ANTHONY J. BRUNO** (seated) Senior Vice President **JANN W. PUCKETT** Vice President **N. KEITH MCKEY** CPA, Executive Vice President, Chief Financial Officer, Secretary and Treasurer **BRUCE E. HEISLER** Vice President



### THE DIRECTORS

**D. PIKE ALOIAN** New York, NY; Director since 1999; Managing Director of Rothschild Realty Inc. **ALEXANDER G. ANAGNOS** New York, NY; Director since 1994; Financial Advisor with W.R. Family Associates. **H. C. BAILEY, JR.** Jackson, MS; Director since 1980; President and Chairman, H.C. Bailey Company (Real Estate Development and Investment). **FREDRIC H. GOULD** New York, NY; Director since 1998; General Partner, Gould Investors LP. **DAVID H. HOSTER II** Jackson, MS; President and Director since 1993; Chief Executive Officer since 1997. **DAVID M. OSNOS** Washington, D.C.; Director since 1993; Attorney and Senior Partner in the law firm of Arent, Fox, Kintner, Plotkin & Kahn. **JOHN N. PALMER** Jackson, MS; Director since 1994; Chairman, Gulf South Capital, Inc. **LELAND R. SPEED** Jackson, MS; Director since 1978, Chief Executive Officer from 1983 to 1997, Chairman of the Board since 1983; Chairman of the Board, Parkway Properties, Inc.





EastGroup Properties, Post Office Box 22728, Jackson, Mississippi 39225-2728

[www.eastgroup.net](http://www.eastgroup.net)

