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IRT PROPERTY CO
Form 10-Q
August 14, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2002

OR

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

For the Transition Period From _____ to _____

Commission File Number 1-7859

IRT PROPERTY COMPANY

(Exact name of registrant as specified in its charter)

Georgia 58-1366611

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

200 Galleria Parkway, Suite 1400 30339
Atlanta, Georgia

(Address of principal executive offices) (Zip Code)

(770) 955-4406

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Outstanding at August 12, 2002

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Common Stock, \$1 Par Value

34,193,635 Shares

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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for IRT Property Company (the "Company"), including, but not limited to, the section herein entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," may contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the Company's beliefs and assumptions, as well as information currently available to the Company. Readers can identify these forward-looking statements through the Company's use of words such as "may," "will," "intend," "project," "would," "could," "should," "expect," "anticipate," "assume," "believe," "estimate," "continue" or other similar words. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may be beyond the Company's control. The Company's actual results may differ significantly from those expressed or implied in such forward-looking statements. Factors that might cause these differences include, but are not limited to:

- changes in tax laws or regulations, especially those relating to real estate investment trusts and real estate in general;
- the number, frequency and duration of vacancies that the Company experiences;
- the Company's ability to solicit new tenants and to obtain lease renewals from existing tenants on terms that are favorable to the Company;
- tenant bankruptcies and closings;
- the general financial condition of, or possible mergers or acquisitions involving, the Company's tenants and competitors;
- competition;
- changes in interest rates and national and local economic conditions;
- possible environmental liabilities;
- the availability, cost and terms of financing;
- the Company's ability to identify, acquire, construct or develop additional properties that result in the returns anticipated or sought; and
- the Company's ability to effectively integrate properties or portfolio acquisitions or other mergers or acquisitions.

Readers should not rely on the information contained in any forward-looking statements and should not expect the Company to update or revise any forward-looking statements. With respect to such forward-looking statements, the Company claims protection under the Private Securities Litigation Reform Act of 1995. The information in this Report, including the information contained in forward-looking statements, is also qualified by the special cautionary notice regarding forward-looking statements and the information in the section entitled "Risk Factors" contained in the Company's Annual Report on Form 10-K for the

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year ended December 31, 2001 and other filings that the Company makes with the Securities and Exchange Commission, which are incorporated herein by reference. The documents that the Company files with the Securities and Exchange Commission are available from the Company, and also may be examined at public reference facilities maintained by the Securities and Exchange Commission or, to the extent filed via EDGAR, accessed through the Internet website of the Securities and Exchange Commission (<http://www.sec.gov>).

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ITEM 1. FINANCIAL STATEMENTS

IRT PROPERTY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	June 30, 2002	December 31, 2001
	-----	-----
ASSETS		
Real estate investments:		
Rental properties	\$ 673,779	\$ 659,820
Properties under development.	22,651	22,599
	-----	-----
Accumulated depreciation.	696,430	682,419
	(117,186)	(109,344)
	-----	-----
Net rental properties.	579,244	573,075
Net investment in direct financing leases	2,118	2,174
Mortgage loans, net	311	1,160
	-----	-----
Net real estate investments.	581,673	576,409
Cash and cash equivalents.	3,900	2,457
Prepaid expenses and other assets.	13,126	11,634
	-----	-----
Total assets	\$ 598,699	\$ 590,500
	=====	=====
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable, net	\$ 132,890	\$ 134,672
7.3% convertible subordinated debentures, net	-	23,275
Senior notes, net	149,782	124,760
Indebtedness to banks	24,000	51,654
Accrued interest.	4,752	4,598
Accrued expenses and other liabilities.	10,045	10,652
	-----	-----
Total liabilities.	321,469	349,611

Commitments and contingencies (Note 8)

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Minority interest payable.	7,655	7,755
Shareholders' equity:		
Preferred stock, \$1 par value, authorized 10,000,000 shares; none issued.	-	-
Common stock, \$1 par value, 150,000,000 shares authorized; 34,187,635 and 33,234,206 shares issued in 2002 and 2001, respectively.	34,187	33,234
Additional paid-in capital.	289,614	272,172
Deferred compensation/stock loans	(3,573)	(1,732)
Treasury stock, at cost, 0 and 2,738,204 shares in 2002 and 2001, respectively	-	(22,783)
Cumulative distributions in excess of net earnings.	(50,653)	(47,757)
	-----	-----
Total shareholders' equity	269,575	233,134
	-----	-----
Total liabilities and shareholders' equity	\$ 598,699	\$ 590,500
	=====	=====

The accompanying notes are an integral part of these condensed consolidated balance sheets.

IRT PROPERTY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
REVENUES:				
Income from rental properties.	\$22,508	\$21,266	\$44,842	\$42,842
Interest income.	15	148	34	11,116
Interest on direct financing leases.	49	94	171	7,842
Gain on sale of outparcels	505	452	505	304
	-----	-----	-----	-----
Total revenues.	23,077	21,960	45,552	43,835
	-----	-----	-----	-----
EXPENSES:				
Operating expenses of rental properties.	5,837	5,362	11,321	10,321
Interest expense	5,462	5,830	11,116	11,116
Depreciation	3,935	3,799	7,842	7,842
Amortization of debt costs	156	164	304	304
General and administrative	1,224	1,113	2,252	2,252
	-----	-----	-----	-----
Total expenses.	16,614	16,268	32,835	32,835
	-----	-----	-----	-----

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Equity in loss of unconsolidated affiliates	-	-	-	-
	-----	-----	-----	-----
Earnings before income taxes, minority interest, gain on sales of properties and extraordinary item.	6,463	5,692	12,717	11,000
Income tax provision.	-	(53)	(9)	-
Minority interest of unitholders in operating partnership . .	(142)	(244)	(284)	(100)
Gain on sales of properties	-	2,498	-	2,000
	-----	-----	-----	-----
Earnings before extraordinary item.	6,321	7,893	12,424	13,000
EXTRAORDINARY ITEM:				
Loss on extinguishment of debt	-	-	(156)	-
	-----	-----	-----	-----
Net earnings.	\$ 6,321	\$ 7,893	\$12,268	\$13,000
	=====	=====	=====	=====
PER SHARE: (Note 8)				
Earnings before extraordinary item - basic	\$ 0.19	\$ 0.26	\$ 0.39	\$ 0.40
Extraordinary item - basic	-	-	-	-
	-----	-----	-----	-----
Net earnings - basic	\$ 0.19	\$ 0.26	\$ 0.39	\$ 0.40
	=====	=====	=====	=====
Earnings before extraordinary item - diluted	\$ 0.19	\$ 0.26	\$ 0.39	\$ 0.40
Extraordinary item - diluted	-	-	-	-
	-----	-----	-----	-----
Net earnings - diluted	\$ 0.19	\$ 0.26	\$ 0.39	\$ 0.40
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic.	32,673	30,281	31,564	30,000
	=====	=====	=====	=====
Diluted.	33,701	32,462	32,564	33,000
	=====	=====	=====	=====

The accompanying notes are an integral part of these condensed consolidated statements.

IRT PROPERTY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(UNAUDITED)
(IN THOUSANDS)

Six Months Ended
June 30,

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	2002	2001
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 12,268	\$ 13,881
Adjustments to reconcile earnings to net cash from operating activities:		
Depreciation	7,842	7,522
Gain on sale of operating properties	-	(2,498)
Gain on sale of outparcels	(505)	(745)
Extraordinary loss on extinguishment of debt	156	-
Minority interest of unitholders in partnership	(100)	(79)
Straight line rent adjustment	(324)	(271)
Amortization of deferred compensation	75	59
Amortization of debt costs and discounts	304	330
Amortization of capitalized leasing income	57	88
Changes in assets and liabilities:		
Increase in accrued interest on debentures and senior notes	232	40
Increase in interest receivable, prepaid expenses and other assets	(936)	(48)
(Decrease) increase in accrued expenses and other liabilities	(680)	1,177
	-----	-----
Net cash flows from operating activities	18,389	19,456
	-----	-----
Cash flows used in investing activities:		
Additions to operating properties, net	(3,277)	(11,329)
Additions to development properties, net	(5,672)	(1,989)
Proceeds from sale of operating properties, net	-	11,260
Proceeds from sale of outparcels, net	1,091	931
Purchase of unconsolidated affiliate, net of assets acquired	-	177
Distribution from dissolution of unconsolidated affiliate	-	21
Funding of mortgage loans	-	(414)
Collections of mortgage loans, net	2	21
	-----	-----
Net cash flows used in investing activities	(7,856)	(1,322)
	-----	-----
Cash flows (used in) provided by financing activities:		
Cash dividends, net	(15,165)	(14,261)
Issuance of common stock, net	38,508	-
Purchase of treasury stock	-	(405)
Exercise of stock options	574	1,266
Issuance of shares under stock purchase plan	21	-
Proceeds from mortgage notes payable	-	20,740
Principal amortization of mortgage notes payable	(1,385)	(1,225)
Repayment of mortgage notes payable	(5,198)	-
Proceeds from 7.84% senior notes issuance	25,000	-
Proceeds from 7.77% senior notes issuance	-	50,000
Repayment of 7.3% convertible subordinated debentures	(23,110)	-
Repayment of 7.45% senior notes	-	(50,000)
Increase in bank indebtedness	(27,654)	(19,000)
Payment of deferred financing costs	(681)	(1,078)
	-----	-----
Net cash flows (used in) provided by financing activities	(9,090)	(13,963)
	-----	-----
Net (decrease) increase in cash and cash equivalents	1,443	4,171
Cash and cash equivalents at beginning of period	2,457	831
	-----	-----

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Cash and cash equivalents at end of period \$ 3,900 \$ 5,002
=====

Supplemental disclosures of cash flow information:

Total cash paid during period for interest \$ 11,356 \$ 11,711
=====

The accompanying notes are an integral part of these condensed consolidated statements.

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IRT PROPERTY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. UNAUDITED FINANCIAL STATEMENTS

These condensed consolidated financial statements for interim periods are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2001. The accompanying condensed consolidated financial statements include the accounts of IRT Property Company and its wholly-owned subsidiaries, IRT Management Company ("IRTMC"), VW Mall, Inc., IRT Alabama, Inc. ("IRTAL") and IRT Capital Corporation II ("IRTCCII"), and its majority-owned subsidiary, IRT Partners L.P. ("LP") (collectively, the "Company"). Intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to a fair presentation of the financial statements as of June 30, 2002 and 2001 have been recorded. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for future interim periods or for the full year.

2. RENTAL PROPERTIES

The rental property acquired in 2002 is summarized below.

SHOPPING CENTER ACQUISITIONS

Date Acquired	Property Name	City, State	Square Footage	Year Built/ Renovated	% Leased at Acquisition	Total Initial Cost
2/19/02	Parkwest Crossing	Durham, NC	85,602	1991	100%	\$6,620

In connection with the acquisition of Parkwest Crossing, the Company assumed a \$4,800, 8.1% mortgage. See Note 5.

3. DEVELOPMENT AGREEMENTS

The Company enters into agreements to develop shopping centers with local developers. The agreements generally consist of the Company committing to loan a fixed amount, at a specified interest rate, for the development of the shopping

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center with the possibility of the Company then purchasing the center upon the developer meeting certain budgetary and leasing requirements. The loan is secured by the development property and due upon completion. The developer is responsible for all construction matters as well as initial leasing efforts.

Additionally, the Company could enter into a separate agreement to purchase the completed shopping center. Generally, the purchase price to the Company is based on the shopping center's net operating income and an implied rate of return at the time when the developer meets the specified requirements. As of June 30, 2002, the Company has no such purchase commitments.

The Company is involved in one development agreement, Freehome Village, a 89,270 square foot shopping center. As of June 30, 2002, the Company has loaned \$925 for development and the shopping center should be completed in 2003.

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The development agreement is classified as a property under development in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2002. Previously, this development agreement had been considered as a mortgage loan.

4. INVESTMENT IN AND ADVANCES TO AFFILIATES

As of June 30, 2002, LP, IRTCCII, IRTAL and IRTMC guaranteed the Company's indebtedness under the Company's existing unsecured revolving term loan and its other senior debt. The guarantees are joint and several and full and unconditional. The following tables show IRTCCII, IRTAL and IRTMC as "Consolidated Subsidiaries."

		GUARANTORS		
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, LP	E
AS OF JUNE 30, 2002				
ASSETS				
Net rental properties	\$ 398,023	\$ 29,814	\$ 151,407	\$
Investment in affiliates.	124,098	-	-	
Other assets.	38,829	40,113	21,112	
	560,950	69,927	172,519	=
LIABILITIES				
Mortgage notes payable.	86,960	4,051	41,879	
Senior Notes, net	149,782	-	-	
Indebtedness to banks	24,000	-	-	
Other liabilities	67,412	24,939	3,046	
	328,154	28,990	44,925	=
SHAREHOLDERS' EQUITY				
Total shareholders' equity	232,796	40,937	127,594	

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Operating expenses of rental properties . . .	3,874	128	1,835
Interest expense	4,689	164	818
Depreciation	2,827	66	1,042
Amortization of debt costs	150	1	5
General and administrative	791	113	320
	-----	-----	-----
Total expenses	12,331	472	4,020
	-----	-----	-----
Equity in earnings (losses) of affiliates . . .	2,611	-	-
	-----	-----	-----
Earnings before income taxes, minority interest, gain on sales of properties and extraordinary item	6,323	2,611	2,534
Income tax provision	-	-	-
Minority interest in operating partnership . .	-	-	-
Gain on sales of properties	-	-	-
	-----	-----	-----
Earnings before extraordinary item	6,323	2,611	2,534
Extraordinary item - loss on extinguishment of debt	-	-	-
	-----	-----	-----
Net Earnings	\$ 6,323	\$ 2,611	\$ 2,534
	=====	=====	=====

GUARANTORS

	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, LP	ELI
	-----	-----	-----	-----
FOR THE THREE MONTHS ENDED JUNE 30, 2001				
REVENUES				
Income from rental properties	\$ 15,063	\$ 344	\$ 5,859	\$
Interest Income	241	-	189	
Interest on direct financing leases	94	-	-	
Other income	37	3,846	-	
	-----	-----	-----	-----
Total revenues	15,435	4,190	6,048	
	-----	-----	-----	-----
EXPENSES				
Operating expenses of rental properties . .	3,743	71	1,548	
Interest expense	5,186	218	709	
Depreciation	2,767	63	969	
Amortization of debt costs	160	1	3	
General and administrative	792	68	253	

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Total expenses	12,648	421	3,482
Equity in earnings (losses) of affiliates. . .	3,716	-	-
Earnings before income taxes, minority interest and gain on sales of properties	6,503	3,769	2,566
Income tax provision	-	(53)	-
Minority interest in operating partnership. .	-	-	-
Gain on sales of properties.	1,388	-	1,108
Net Earnings	\$ 7,891	\$ 3,716	\$ 3,674

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	GUARANTORS		
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, LP
FOR THE SIX MONTHS ENDED JUNE 30, 2002			
REVENUES			
Income from rental properties	\$ 31,048	\$ 928	\$ 12,866
Interest Income	280	-	158
Interest on direct financing leases	171	-	-
Other income.	341	5,094	-
Total revenues	31,840	6,022	13,024
EXPENSES			
Operating expenses of rental properties . . .	7,536	238	3,547
Interest expense.	9,625	310	1,584
Depreciation.	5,633	131	2,078
Amortization of debt costs.	294	1	9
General and administrative.	1,487	173	592
Total expenses	24,575	853	7,810
Equity in earnings (losses) of affiliates. . . .	5,160	-	-
Earnings before income taxes, minority interest, gain on sales of properties and extraordinary item	12,425	5,169	5,214

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Income tax provision	-	(9)	-
Minority interest in operating partnership. . .	-	-	-
Gain on sales of properties.	-	-	-
	-----	-----	-----
Earnings before extraordinary item	12,425	5,160	5,214
Extraordinary item - loss on extinguishment of debt.	(156)	-	-
	-----	-----	-----
Net Earnings	\$ 12,269	\$ 5,160	\$ 5,214
	=====	=====	=====
Net cash flows provided by (used in) operating activities	\$ 11,657	\$ 4,373	\$ 7,272
	=====	=====	=====
Net cash flows used in investing activities	\$ (3,206)	\$ (1,592)	\$ (3,058)
	=====	=====	=====
Net cash flows (used in) provided by financing activities	\$ (7,331)	\$ (2,596)	\$ (4,076)
	=====	=====	=====

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	GUARANTORS		
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, LP
	-----	-----	-----
FOR THE SIX MONTHS ENDED JUNE 30, 2001			
REVENUES			
Income from rental properties.	\$ 30,300	\$ 622	\$ 11,598
Interest Income.	709	-	170
Interest on direct financing leases.	284	-	-
Other income	43	6,412	293
	-----	-----	-----
Total revenues.	31,336	7,034	12,061
	-----	-----	-----
EXPENSES			
Operating expenses of rental properties. . .	7,452	136	3,100
Interest expense	10,483	286	1,312
Depreciation	5,502	91	1,929
Amortization of debt costs	308	1	3
General and administrative	1,478	107	494
	-----	-----	-----
Total expenses.	25,223	621	6,838

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Equity in earnings (losses) of affiliates . . .	6,360	-	-
Earnings before income taxes, minority interest and gain on sales of properties.	12,473	6,413	5,223
Income tax provision.	-	(53)	-
Minority interest in operating partnership . .	-	-	-
Gain on sales of properties	1,388	-	1,108
Net Earnings.	\$ 13,861	\$ 6,360	\$ 6,331
Net cash flows provided by (used in) operating activities.	\$ 13,382	\$ 5,717	\$ 7,147
Net cash flows provided by (used in) investing activities.	\$ 18,156	\$ (597)	\$ (1,724)
Net cash flows provided by (used in) financing activities.	\$ 10,518	\$ (5,155)	\$ (11,736)

5. MORTGAGE NOTES PAYABLE

On February 19, 2002, the Company assumed a non-recourse, secured loan totaling \$4,800, in connection with the acquisition of Parkwest Crossing. The secured loan has a fixed interest rate of 8.1%. The loan is due and payable September 1, 2010 and the principal amortization is based on a thirty year amortization schedule. Costs associated with assuming the secured loan totaled \$56 and is being amortized over the term of the loan.

On March 1, 2002, the Company prepaid a 9.63% secured loan of approximately \$5,198. The loan was due on June 1, 2002.

6. 7.3% CONVERTIBLE SUBORDINATED DEBENTURES

On January 24, 2002, the Company redeemed all of the outstanding 7.3% convertible subordinated debentures due August 15, 2003 at par plus accrued interest. Prior to redemption, 165 bonds were converted into 14,659 shares of common stock. The Company paid \$23,110 to redeem the remaining bonds outstanding and recognized a \$156 extraordinary loss on the extinguishment of unamortized debt costs.

7. SENIOR NOTES

On January 23, 2002, pursuant to the Medium Term Note Program (the "MTN Program") established in 2001, the Company issued \$25,000 of 7.84% senior unsecured notes due January 23, 2012. Interest on these senior notes is payable semi-annually on January 23 and July 23. Costs associated with the issuance of these senior notes totaled approximately \$306 and are being amortized over the life of the notes.

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8. COMMITMENTS AND CONTINGENCIES

Certain of the Company's properties have environmental concerns that have been or are being addressed. The Company maintains limited insurance coverage for this type of environmental risk. Although no assurance can be given that Company properties will not be affected adversely in the future by environmental problems, the Company presently believes that there are no environmental matters that are reasonably likely to have a material adverse effect on the Company's financial position.

9. COMMON STOCK

In May 2002, the Company completed an offering of 3,450,000 shares of common stock at \$11.79 per share. Net proceeds to the Company were approximately \$38,508.

10. DEFERRED COMPENSATION

On May 30, 2002, 160,000 restricted shares of common stock were granted to certain Company officers as incentives for future services. The restricted shares vest proportionately over 4 years from the date of grant. The restricted shares were valued at the closing price of the Company's common stock on May 30, 2002 of \$11.97. As of June 30, 2002, the Company had recognized approximately \$16 within the Condensed Consolidated Income Statements.

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11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period. The effects of the conversion of the operating partnership units held by the minority interest are dilutive for the three and six months ended June 30, 2002 and for the six months ended June 30, 2001 and have been included in the calculation of diluted earnings per share for those periods. For the three months ended June 30, 2001, the effect of the operating partnership units have been excluded from the calculation as they are anti-dilutive for the period. For the three and six months ended June 30, 2001 the effects of the conversion of the 7.3% debentures have been included as they are dilutive for such periods. For the three and six months ended June 30, 2002, due to the redemption of such convertible bonds in January 2002, the effects of the conversion have been excluded from the calculation of diluted earnings per share as they are anti-dilutive for those periods. The effects of certain stock options and non-vested restricted stock, using the treasury stock method, have been included in the calculation of diluted earnings per share, as they are dilutive for all periods presented.

	Per Share		
	Income	Shares	Amount
	-----	-----	-----
(In thousands except per share amounts)			
For the three months ended June 30, 2002			

Basic net earnings available to shareholders	\$ 6,314	32,673	\$ 0.19
			=====
Options outstanding	-	192	

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Restricted stock	-	20	
Minority interest of unitholders in operating partnership.	142	816	
Diluted net earnings available to shareholders	\$ 6,456	33,701	\$ 0.19
	=====	=====	=====

For the three months ended June 30, 2001

Basic net earnings available to shareholders	\$ 7,893	30,281	\$ 0.26
			=====
Options outstanding.	-	92	
Restricted stock	-	20	
Conversion of 7.3% debentures.	450	2,069	
Diluted net earnings available to shareholders	\$ 8,343	32,462	\$ 0.26
	=====	=====	=====

For the six months ended June 30, 2002

Basic net earnings available to shareholders	\$12,261	31,564	\$ 0.39
			=====
Options outstanding.	-	168	
Restricted Stock	-	16	
Minority interest of unitholders in operating partnership.	284	816	
Diluted net earnings available to shareholders	\$12,545	32,564	\$ 0.39
	=====	=====	=====

For the six months ended June 30, 2001

Basic net earnings available to shareholders	\$13,881	30,247	\$ 0.46
			=====
Options outstanding.	-	65	
Restricted stock	-	3	
Minority interest of unitholders in operating partnership.	305	816	
Conversion of 7.3% debentures.	900	2,069	
Diluted net earnings available to shareholders	\$15,086	33,200	\$ 0.45
	=====	=====	=====

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

(Dollars in thousands, except per share amounts)

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

OVERVIEW

IRT Property Company ("IRT" or the "Company") was founded in 1969 and became a public company in May 1971 (NYSE: IRT). The Company is an owner, operator, redeveloper and developer of high quality, well located neighborhood and community shopping centers throughout the southeastern United States. The Company's portfolio consists of 89 shopping centers, three shopping center investments, four development properties, one industrial property and three mortgage loans. The 89 shopping centers and the three shopping center investments total approximately 9.8 million square feet of retail space and are located in eleven southeastern states. IRT shopping centers are anchored by necessity-oriented retailers such as supermarkets, drug stores, national value

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retailers and department stores.

GEOGRAPHIC MARKETS

The Company owns and operates 89 shopping centers in ten states primarily located in Florida (26), Georgia (20), Louisiana (14) and North Carolina (14). The following table summarizes the Company's shopping centers by state for total gross leasable area ("GLA") and rental income for the six months ended June 30, 2002 and for the year ended December 31, 2001:

	% OF GLA		% OF RENTAL INCOME	
	JUNE 30, 2002	DECEMBER 31, 2001	JUNE 30, 2002	DECEMBER 31, 2001
Florida	32.5%	32.3%	39.0%	38.4%
Georgia	24.6%	25.1%	24.4%	25.6%
Louisiana . . .	17.5%	17.8%	14.0%	14.4%
North Carolina	13.2%	12.5%	11.8%	11.2%
Tennessee . . .	3.7%	3.7%	3.4%	3.2%
Virginia	2.8%	2.8%	2.4%	2.3%
South Carolina	2.5%	2.6%	2.0%	2.0%
Alabama	2.1%	2.1%	2.1%	2.2%
Mississippi . .	0.7%	0.7%	0.5%	0.3%
Kentucky	0.4%	0.4%	0.4%	0.4%
	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====

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TENANTS AND LEASING

The Company's 89 shopping centers are anchored by necessity-oriented retailers such as supermarkets, drug stores, national value retailers and department stores. The Company's five largest tenants, as a percentage of revenues, are Publix (9.1%), Kroger (7.1%), Wal-Mart (4.6%), Kmart (4.0%) and Winn Dixie (2.6%). As of June 30, 2002, of the Company's 9.8 million square feet of retail space, approximately 2.8 million, or 28.6%, was leased to grocery stores. Including anchor tenants, the Company has over 1,000 different tenants. The following table represents the percent leased and the average base rent per square foot leased by state as of June 30, 2002 and December 31, 2001:

	% LEASED		AVERAGE BASE RENT PER SQUARE FOOT LEASED	
	JUNE 30, 2002	DECEMBER 31, 2001	JUNE 30, 2002	DECEMBER 31, 2001
Florida	94%	92%	\$ 9.19	\$ 9.10
Georgia	94%	95%	8.19	8.19

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Louisiana	82%	87%	7.44	7.22
North Carolina	94%	94%	6.92	6.64
Tennessee	96%	97%	6.49	6.60
Virginia	93%	92%	7.01	6.93
South Carolina	94%	95%	6.07	6.06
Alabama	99%	98%	7.95	7.90
Mississippi	100%	100%	5.63	5.62
Kentucky	51%	94%	7.89	7.81

Total of all properties	92%	93%	\$ 8.03	\$ 7.94
	=====	=====	=====	=====

The overall percent leased slightly decreased from 93% at December 31, 2001 to 92% at June 30, 2002. The decrease was due to one of the Company's major tenants, Kmart, rejecting one lease in Louisiana of 72,897 square feet at the end of June.

Base rent per square foot leased increased from \$7.94 per square foot as of December 31, 2001 to \$8.03 per square foot as of June 30, 2002 due to increased renewal rental rates and higher rates on the new properties. The Company renewed leases during 2002 at an average increase of 5.2% in rental revenues. The Company also completed two developments and purchased three properties during 2001 and 2002, which have higher base rents per square foot.

The necessity-oriented retailers, such as those occupying the Company's properties, typically perform well in an economic recession; however, adverse changes in general or local economic conditions could result in the inability of some existing tenants to meet their lease obligations and could adversely affect the Company's ability to attract or retain tenants.

In October 1999, a grocery anchor, Jitney Jungle, filed for reorganization under Chapter 11 of the United States Bankruptcy Code. At the time of filing, the Company had leases with Jitney Jungle at 10 store locations. Jitney Jungle disavowed two of these leases at the time of the bankruptcy filing. During 2000, Jitney Jungle rejected three additional leases, and in January 2001 the remaining five leases were rejected by the bankruptcy court. As of June 30, 2002, of the 10 original Jitney Jungle locations, three are fully leased to grocery operators, three are fully leased to other national tenants and one is partially leased to a national tenant. The Company is negotiating with retailers for two of the remaining three locations.

On January 22, 2002, one of the Company's anchor tenants, Kmart Corporation, filed for bankruptcy protection. The Company has eight stores leased to Kmart, which accounted for 4.0% of the Company's total revenues for the six months ended June 30, 2002. On March 8, 2002, Kmart Corporation announced nationwide store closings that included two stores in IRT's portfolio. Rental income from these two stores in 2001 was approximately \$730, including base rents and all related charges of property taxes and common area maintenance. Subsequently in June 2002, the two stores, located at Siegen Village and Pinhook Plaza in Louisiana, closed when store-closing inventory sales were completed. The Siegen Village lease was purchased by a third party, which continues to pay rent for this space. The lease at Pinhook Plaza was rejected by Kmart and the Company obtained possession of this space. The Company is aggressively marketing this location to prospective tenants and presently believes revenue lost will not have a material adverse affect on the Company.

Other tenants have also filed for protection under bankruptcy laws, however; the Company presently believes the potential financial losses likely

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will not be significant with regard to the Company's overall portfolio of tenants.

As of June 30, 2002, our leases with anchor tenants had a weighted average life of 7.25 years. Anchor tenants are defined as supermarkets, drug stores, national value retailers, department stores and other tenants leasing in excess of 10,000 square feet which, in management's opinion, have the traffic-generating qualities necessary to be considered an anchor. Our leases with shop tenants, which include all other tenants except anchors, had a weighted average life of 2.65 years as of June 30, 2002. The following table represents anchor and shop tenant lease expirations as of June 30, 2002:

LEASE YEAR EXPIRATION	NUMBER OF LEASES EXPIRING	APPROXIMATE LEASED AREA IN SQUARE FEET	ANNUALIZED BASE RENT UNDER EXPIRING LEASES	AVERAGE BASE RENT PER SQUARE FOOT
-----	-----	-----	-----	-----
2002 . . .	153	349,676	\$ 3,883,139	\$ 11.10
2003 . . .	320	871,238	8,857,400	10.17
2004 . . .	286	798,576	8,359,530	10.47
2005 . . .	268	914,807	8,620,194	9.42
2006 . . .	188	898,944	8,294,053	9.23
2007 . . .	125	833,102	6,548,317	7.86
2008 . . .	22	403,373	2,422,503	6.01
2009 . . .	25	784,006	4,188,812	5.34
2010 . . .	20	313,860	2,083,252	6.64
2011 . . .	17	496,761	3,209,201	6.46
2012 . . .	15	436,195	3,029,319	6.94
Thereafter	55	1,771,516	12,566,249	7.09
-----	-----	-----	-----	-----
Total . .	1,494	8,872,054	\$ 72,061,969	\$ 8.12
	=====	=====	=====	=====

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RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 2002 TO THE THREE MONTHS ENDED JUNE 30, 2001

Revenues

Total revenues increased \$1,117, or 5.1%, to \$23,077 in 2002 primarily due to an increase in income from rental properties of \$1,242 and gains on sales of outparcels of \$53, which was partially offset by decreases in interest income of \$133 and interest on direct financing leases of \$45.

Income from rental properties increased \$1,242, or 5.8%, to \$22,508 in 2002. Included in income from rental properties is minimum rent, percentage rent and other rental income. Minimum rents increased \$919, or 5.3%, primarily due to an increase in rental rates per square foot from \$7.94 in 2001 to \$8.03 in 2002 and the core portfolio of properties contributing \$719, or an increase of 3.4%, over 2001. The core portfolio is defined as properties held in the same corresponding period from the current and prior year, excluding those properties sold or acquired during the same corresponding period. Income from rental

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properties increased \$510 due to one property acquired in 2002 and one property acquired in 2001 which was partially offset by a \$13 decrease in income attributable to the sale of four properties in 2001. Percentage rent, based on tenant's gross sales exceeding specified amounts, increased \$127, or 56.7%, to \$351 for 2002 due to timing of receipt of payments differing from 2001. Other rental income such as tenant reimbursements for common area maintenance ("CAM"), property taxes and insurance, tenant allowances (bad debt reserves) and lease cancellation fees, increased \$196, or 5.1%, to \$4,042. This increase was partially due to an increase in tenant reimbursements for CAM of \$292, or 7.8%. The reimbursements received as a percentage of expenses were 73.6% in 2002 and 74.2% in 2001. The decrease in the reimbursement percentage is due to the significant increase in insurance costs, not all of which can be reimbursed by the tenants. Tenant allowances decreased \$4, or 3.4%, from 2001 and represented only 0.5% of rental income in 2002. Lease cancellation fees decreased \$71, or 63.8%, due to the one-time lease termination fee of an anchor in 2001.

Interest income decreased \$133, or 89.9%, to \$15 in 2002 from \$148 in 2001. The decrease was due to interest charged on a development loan that was repaid in 2001.

Interest on direct financing leases decreased \$45, or 47.9%, due to the sale of one direct financing lease investment in May 2001.

Gain on sale of outparcels increased \$53, or 11.7% to \$505 in 2002. In 2002 the Company sold two outparcels compared to one outparcel in 2001.

Expenses

Total expenses increased \$346, or 2.1%, to \$16,614 in 2002 due to increases in operating expenses of rental properties of \$475, depreciation of \$136, administrative expenses of \$111, partially offset by a decrease in interest expense of \$368 and amortization costs of \$8.

Operating expenses of rental properties increased \$475, or 8.9%, to \$5,837 in 2002. This increase was partially due to an increase of real estate taxes of \$154, or 8.0%, over 2001 as a result of increased property values. Insurance costs increased by \$290, or 97.5%, over 2001 due to a significant increase in premiums as a result of the insurance market environment. The Company amortizes lease fees that are capitalized and the amortization expense increased \$24, or 7.8%, in 2002 due to increased leasing activity in 2001 in connection with the releasing of the former Jitney Jungle stores. During 2002, the Company executed over 209,000 square feet of new or renewed leases. Tenant reimbursable operating expenses decreased \$11, or 0.6%, primarily due to lower operating and maintenance costs. Overall, the operating expenses of properties increased due to core portfolio operating expenses increasing \$339, or 6.4%, over

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2001 and the one property acquired in 2002 with the one property acquired during 2001 increasing expenses \$128. These increases were partially offset by a decrease in expenses of \$9 from the sales of four properties during 2001.

Interest expense decreased \$368, or 6.3%, in 2002 primarily due to a decrease of \$427 on bank interest as a result of a lower effective interest rate of 3.89% in 2002 as compared to 6.88% in 2001 and a lower average borrowing during 2002 of \$38,396 compared to \$42,705 during 2001. This decrease was partially offset by the higher interest rate on the new senior unsecured notes issued in January 2002 of 7.84% or \$65.

The net increase of \$136, or 3.6%, in depreciation expense in 2002 was due to the acquisition of a shopping center in the first quarter of 2002 and two shopping centers during 2001, net of the effect of the disposition of three properties in 2001.

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Amortization of debt costs decreased \$8, or 4.9%, due to the \$25,000 of 7.84% senior notes issued in January 2002, partially offset by the write-off of costs relating to the redemption of the 7.3% convertible bonds in January 2002.

General and administrative expenses increased \$111, or 10%, to \$1,224 in 2002 primarily due to a \$82 decrease in capitalized development costs as compared to 2001 since one development was completed in 2002. Total general and administrative expenses as a percentage of total revenues were 5.3% and 5.1% for 2002 and 2001, respectively.

Other

Income taxes were \$53 in 2001 compared to no income tax expense in 2002 due to a subsidiary having taxable income in the second quarter of 2001 and no additional tax liability for 2002 due to prior year credits for taxable income.

Minority interest expense decreased \$102, or 41.8%, to \$142 in 2002. Minority interest represents the interest of an unaffiliated limited partner in the earnings of a partnership with the Company. The partnership sold two properties in 2001 thus increasing the net income of the partnership in 2001. No such sales occurred in 2002. This decrease in partnership net income from 2001 is partially offset due to the Company acquiring one property in 2002 and two properties in 2001 for inclusion in the partnership, which increased the Company's percentage ownership of the partnership from 93.0% in 2001 to 94.4% in 2002.

The Company sold four properties in 2001 compared to none in 2002, leading to a decrease in gain on sales of properties of \$2,498 from 2001.

Net Earnings

Net earnings decreased \$1,572, or 19.9%, to \$6,321 in 2002 from \$7,893 in 2001. The decrease was attributable to no gains on sales of properties in 2002 and higher operating expenses of the properties along with higher general and administrative expenses. These increases in expenses were partially offset by an increase in revenues primarily from the increase in base rents per square foot and rental revenues.

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COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2002 TO THE SIX MONTHS ENDED JUNE 30, 2001

Revenues

Total revenues increased \$1,723, or 3.9%, to \$45,552 in 2002 primarily due to an increase in income from rental properties of \$2,322, which was partially offset by decreases in interest income of \$246, interest on direct financing leases of \$113 and gains on sale of outparcels of \$240.

Income from rental properties increased \$2,322, or 5.5%, to \$44,842 in 2002. Included in income from rental properties is minimum rent, percentage rent and other rental income. Minimum rents increased \$1,800, or 5.3%, primarily due to an increase in rental rates per square foot from \$7.94 in 2001 to \$8.03 in 2002 and the core portfolio of properties contributing \$980, or an increase of 2.3%, over 2001. The core portfolio is defined as properties held in the same corresponding period from the current and prior year, excluding those properties sold or acquired during the same corresponding period. Income from rental properties increased \$1,449 due to one property acquired in 2002 and two properties acquired in 2001 which was partially offset by a \$106 decrease in income attributable to the sale of four properties in 2001. Percentage rent, based on tenant's gross sales exceeding specified amounts, decreased \$32, or 3.9%, to \$785 for 2002 due to several anchor tenants closing in 2001. Other rental income such as tenant reimbursements, tenant allowances (bad debt

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reserves) and lease cancellation fees, increased \$554, or 7.4%, to \$8,087. This increase was partially due to an increase in tenant reimbursements for common area maintenance ("CAM") of \$568, or 7.7%. The reimbursements received as a percentage of expenses were 75.5% in 2002 and 73.9% in 2001. This increase is due to the new properties acquired in 2002 and 2001. Tenant allowances decreased \$63, or 22.1%, from 2001 and represented only 0.5% of rental income in 2002. Lease cancellation fees decreased \$156, or 77.5%, due to the one-time lease termination fee of an anchor in 2001.

Interest income decreased \$246, or 87.9%, to \$34 in 2002 from \$280 in 2001. The decrease was due to interest charged on a development loan that was repaid in 2001.

Interest on direct financing leases decreased \$113, or 39.8%, due to the sale of one direct financing lease investment in May 2001.

Gain on sale of outparcels decreased \$240, or 32.2% to \$505 in 2002. In 2002 and 2001 the Company sold two outparcels.

Expenses

Total expenses increased \$751, or 2.3%, to \$32,835 in 2002 due to increases in operating expenses of rental properties of \$633, depreciation of \$320 and administrative expenses of \$169, partially offset by a decrease in interest expense of \$363 and amortization of debt costs of \$8.

Operating expenses of rental properties increased \$633, or 5.9%, to \$11,321 in 2002. This increase was partially due to an increase of real estate taxes of \$314, or 8.2%, over 2001 as a result of increased property values. Insurance costs increased by \$578, or 97.1%, over 2001 due to a significant increase in premiums as a result of the insurance market environment. The Company amortizes lease fees that are capitalized and the amortization expense increased \$58, or 9.8%, in 2002 due to increased leasing activity in 2001 in connection with the releasing of the former Jitney Jungle stores. During 2002, the Company executed over 460,000 square feet of new or renewed leases. Tenant reimbursable operating expenses decreased \$236, or 6.6%, primarily due to lower operating and maintenance costs. Overall, the operating expenses of properties increased due to core portfolio operating expenses increasing \$259, or 2.4%, over 2001 and the one property acquired in 2002 with the two properties acquired during 2001 increasing expenses \$392. These increases were partially offset by a decrease in expenses of \$16 from the sales of four properties during 2001.

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Interest expense decreased \$363, or 3.2%, in 2002 primarily due to a decrease of \$831 on bank interest as a result of a lower effective interest rate of 3.89% in 2002 as compared to 7.3% in 2001 and a lower average borrowing during 2002 of \$22,510 compared to \$24,251 during 2001. This decrease was partially offset by the higher interest rate on the new senior unsecured notes issued in January 2002 of 7.84% or \$114 and the higher interest rate on the three mortgage notes obtained in the second quarter of 2001 of 7.17% or \$317.

The net increase of \$320, or 4.3%, in depreciation expense in 2002 was due to the acquisition of a shopping center in the first quarter of 2002 and two shopping centers during 2001, net of the effect of the disposition of three properties in 2001.

Amortization of debt costs decreased \$8, or 2.6%, due to the \$25,000 of 7.84% senior notes issued in January 2002, partially offset by the write-off of costs relating to the redemption of the 7.3% convertible bonds in January 2002.

General and administrative expenses increased \$169, or 8.1%, to \$2,252 in

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2002 primarily due to a \$165 decrease in capitalized lease fees. Capitalized lease fees decreased from 2001 due to several anchor tenant locations being released in 2001 as a result of the Jitney Jungle bankruptcy. Total general and administrative expenses as a percentage of total revenues were 4.9% and 4.8% for 2002 and 2001, respectively.

Other

Income taxes decreased \$44, or 83.0%, in 2002 due to a subsidiary not having as much taxable income in 2002 as 2001.

Minority interest expense decreased \$21, or 6.9%, to \$284 in 2002. Minority interest represents the interest of an unaffiliated limited partner in the earnings of a partnership with the Company. The partnership sold two properties in 2001 thus increasing the net income of the partnership in 2001. No such sales occurred in 2002. This decrease in partnership net income from 2001 is partially offset due to the Company acquiring one property in 2002 and two properties in 2001 for inclusion in the partnership, which increased the Company's percentage ownership of the partnership from 93.0% in 2001 to 94.4% in 2002.

The Company sold four properties in 2001 compared to none in 2002, leading to a decrease in gain on sales of properties of \$2,498 from 2001.

Due to the early extinguishment of the 7.3% convertible debentures in January 2002, the Company recognized an extraordinary loss of \$156 on the unamortized debt issue costs. No such transaction occurred in 2001.

Net Earnings

Net earnings decreased \$1,613, or 11.6%, to \$12,268 in 2002 from \$13,881 in 2001. The decrease was attributable to a one time extraordinary loss on the extinguishment of debt, no gains on sales of properties and higher operating expenses of the properties along with higher general and administrative expenses. These increases in expenses were partially offset by an increase in revenues primarily from the increase in base rents per square foot and rental revenues.

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LIQUIDITY AND CAPITAL RESOURCES

The Company presently expects cash from operating activities to be its primary source of funds to pay dividends, mortgage note payments and certain capital improvements on properties. Net cash from operating activities was \$18,389 in 2002 as compared to \$19,456 in 2001, a decrease of 5.5%. The decrease in cash flow is due to a decrease in accrued expenses during 2002, and an increase in prepaid expenses during 2002. Dividends paid during 2002 and 2001 were \$15,165 and \$14,261, respectively. Mortgage principal payments for 2002 and 2001 were \$1,385 and \$1,225, respectively. Total capital expenditures on operating properties for 2002 and 2001 were \$1,064 and \$3,426, respectively.

Other planned activities, including property acquisitions, new developments, certain capital improvement programs and debt repayments, are expected to be funded to the extent necessary by bank borrowings, mortgage financing, periodic sales or exchanges of existing properties, the issuance of OP Units and public or private offerings of stock or debt. Net cash used in investing activities was \$7,856 in 2002, as compared to \$1,322 in 2001, an increase of \$6,534. This increase in cash used in investing activities was due to an acquisition in 2002 and an increase in capital expenditures relating to the development program of \$1,989 in 2001 to \$5,672 in 2002 as the Company completed one development and was concluding another development.

Net cash used in financing activities decreased to \$9,090 in 2002 from

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\$13,963 in 2001, a decrease of \$4,873. This decrease was due to the Company issuing \$38,508 of common stock and \$25,000 of senior notes in 2002 compared to the Company issuing \$50,000 of senior notes in 2001 offset by the redemption of the convertible debentures in 2002 of \$23,110 and a repayment of a mortgage in 2002 of \$5,198.

In May 1998, the Company filed a shelf registration statement covering up to \$300,000 of common stock, preferred stock, depositary shares, debt securities and warrants. In January 2001, the Company filed a new shelf registration statement to replace and update the 1998 shelf registration statement. The Company presently intends to use the net proceeds of any offerings under such shelf registration for general corporate purposes, which may include, without limitation, repayment of maturing obligations, redemption of outstanding indebtedness or other securities, financing future acquisitions and for working capital.

On March 23, 2001, the Company established a Medium Term Note Program (the "MTN Program"), pursuant to the Company's shelf registration statement filed in January 2001. The MTN Program allows the Company, from time to time, to issue and sell up to \$100,000 of medium term notes. Medium term notes have a maturity of nine months or more from the date of issuance. On March 29, 2001, pursuant to the MTN Program, the Company issued \$50,000 of 7.77% medium term notes due April 1, 2006. Net proceeds from the issuance totaled \$49,328 and were used to substantially repay the \$50,000 of 7.45% senior notes that were due on April 1, 2001. On January 23, 2002, an additional \$25,000 of 7.84% medium term notes were issued to redeem the 7.3% convertible subordinated debentures. These new notes are due on January 23, 2012. As a result, the Company has \$25,000 of medium term notes available for issuance under its MTN Program. As of March 31, 2002, the Company had issued \$75,000 in debt securities from the shelf registration.

The Company also issued 3,450,000 shares at an offering price of \$11.79 per share for total proceeds, before expenses, of \$40,676 under the shelf registration statement in May 2002. As a result of the MTN Program and common stock sales, \$184,324 of securities remain available for issuance under the shelf registration statement.

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On January 24, 2002, the Company redeemed all of the outstanding 7.3% convertible subordinated debentures at par for \$23,220. Prior to redemption, 165 bonds were converted into 14,659 shares of common stock.

The Company uses secured borrowings to meet capital requirements. As of June 30, 2002 the Company had \$132,890 in mortgage notes payable at a weighted average interest rate of 7.60%, which are due in monthly installments with maturity dates ranging from 2002 to 2024.

In February 2002, the Company assumed a non-recourse, mortgage loan totaling \$4,800, in connection with the acquisition of Parkwest Crossing. The secured loan has a fixed interest rate of 8.1%. The loan is due and payable in eight years and the principal amortization is based on a thirty year amortization schedule.

On March 1, 2002, the Company prepaid a 9.63% mortgage loan of approximately \$5,198. The loan was due on June 1, 2002.

In February 2001, the Company entered into three mortgage loans totaling \$20,740, secured by first mortgages on three properties. These notes are due and payable in ten years and the principal amortization is based on a thirty year amortization schedule. The notes bear interest at a weighted average interest rate of 7.17% and range from 7.02% to 7.25%.

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Future principal amortization and balloon payments applicable to mortgage notes payable at June 30, 2002 are as follows:

	Scheduled Amortization	Balloon Payments	Total
	-----	-----	-----
2002	\$ 1,424	\$ 1,978	\$ 3,402
2003	2,965	-	2,965
2004	3,192	-	3,192
2005	3,448	31,500	34,948
2006	3,586	54,797	58,383
Thereafter	53,991	150,009	204,000
	-----	-----	-----
	\$ 68,606	\$ 238,284	\$306,890
	=====	=====	=====

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On November 1, 1999, the Company obtained a \$100,000 unsecured revolving loan facility (the "Revolving Loan"), with an original maturity of November 1, 2002. This Revolving Loan replaced the Company's previous credit facility and is led by a different financial institution and further backed by a syndicate of four other financial institutions. Not later than November 1 of each year commencing in 2000, the Company may request to extend the maturity date for an additional 12-month period beyond the existing maturity date. The interest rate is, at the option of the Company, either prime, fluctuating daily, or LIBOR plus the "Applicable Margin" (currently 105 basis points), which is subject to adjustment based upon the rating of the senior unsecured long-term debt obligations of the Company. The Company may borrow, repay and/or reborrow under this loan at any time. In addition, the Company secured a \$5,000 unsecured swing line, bearing interest at LIBOR plus the Applicable Margin, scheduled to mature on October 31, 2000. In October 2000, the maturity date of the Revolving Loan and the swing line was extended to November 1, 2003. The Company also secured an option to increase the Revolving Loan at its discretion by \$50,000. On May 29, 2002, the Company amended and renewed the existing \$100 million unsecured line of credit, as well as extending the Company's option to expand the line by \$50 million, until May 29, 2005. The Revolving Loan was also amended to decrease the Applicable Margin to 105 basis points from 115 basis points. The terms of the Company's credit facilities and other instruments and agreements relating to our indebtedness include certain customary operational and financial covenants, which the Company was in compliance with as of June 30, 2002.

As of June 30, 2002 and December 31, 2001, the borrowings under the Company's credit facilities totaled \$24,000 and \$51,654, respectively. The average interest rates for 2002 and 2001 were 3.89% and 6.48%, respectively. At June 30, 2002, the weighted average interest rate was 3.06% on outstanding borrowings under the Revolving Loan.

LP, IRTCCII, IRTAL and IRTMC guarantee the Company's indebtedness under the Company's existing unsecured revolving term loan and its other senior debt.

The Company presently believes that based on currently proposed plans and assumptions relating to its operations, the Company's existing financial

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arrangements, together with cash flows from operations, will be sufficient to satisfy its foreseeable cash requirements for the next year. At June 30, 2002 the Company's market capitalization was approximately \$742,227, of which 41%, or \$306,672, was from financing sources. It is the Company's present intention to have access to the capital resources necessary to expand and develop its business while maintaining its investment grade ratings with Moody's Investor Services and Standard and Poors'. Accordingly, the Company may, from time to time, seek to obtain funds through additional security offerings or debt financings in a manner consistent with its current debt capitalization policy.

INFLATION AND ECONOMIC FACTORS

The effects of inflation upon the Company's results of operations and investment portfolio are varied. From the standpoint of revenues, inflation has the dual effect of both increasing the tenant revenues upon which percentage rentals are based and allowing increased fixed rentals as rental rates rise generally to reflect higher construction costs on new properties. This positive effect is partially offset by increasing operating and interest expenses, but usually not to the extent of the increases in revenues.

The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve, and the reserve requirements on deposits. Such activities affect the availability and cost of credit, generally, and the Company's costs under its bank credit facilities, in particular.

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ENVIRONMENTAL FACTORS

Certain of the Company's properties have environmental concerns that have been or are being addressed. The North Carolina Department of Environment, Health and Natural Resources ("DEHNR") informed the Company, by letter dated November 30, 2000, that the Company's Industrial property in Charlotte, North Carolina ("Industrial Property"), continues to be included on the North Carolina Inactive Hazardous Waste Sites Priority List ("Priority List"). According to DEHNR, the Priority List is a list of sites in North Carolina where uncontrolled disposal, spills, or releases of hazardous substances have been identified. The Company also has been informed by a third-party consultant that hazardous substances may be present in groundwater under the Industrial Property in excess of regulatory limits. DEHNR indicated in its November 30 letter that it was notifying the Company of the inclusion of the Industrial Property on the Priority List, and that the letter was not an order to conduct any work, but that the Company was invited to consider a voluntary cleanup.

The Company has begun investigating this matter, including the basis for inclusion of the Industrial Property on the Priority List and the scope and source of any such hazardous substances in groundwater (which may be a result of, among other things, prior ownership and usage of the Industrial Property or contaminants from other nearby properties), and whether its insurance will cover these costs in whole or in part. Depending on the results of this investigation, notification of DEHNR may be required and certain corrective actions performed. Based on information presently available, the Company presently believes that the costs of any such corrective action is not expected to have a material adverse effect on the Company.

Various of our properties include facilities leased to dry cleaners. At some of the properties, dry cleaning solvents have been discovered in soil and/or groundwater, and in several cases, preliminary investigations indicate the amounts exceed applicable groundwater and/or soil protection standards and may require further investigation or remediation. The costs associated with such

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investigation or corrective actions are uncertain.

Since January 1, 2000, the Company has maintained environmental and pollution legal liability insurance coverage to attempt to mitigate the associated risks. Although no assurance can be given that Company properties will not be affected adversely in the future by environmental problems, the Company presently believes that there are no environmental matters that are reasonably likely to have a material adverse effect on the Company's financial position.

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FUNDS FROM OPERATIONS

The Company defines funds from operations, consistent with the National Association of Real Estate Investment Trusts ("NAREIT") definition, as net earnings on real estate investments less gains (losses) on sale of properties and extraordinary items plus depreciation and amortization of capitalized leasing costs. Interest and amortization of issuance costs related to convertible subordinated debentures and minority interest expenses are added back to funds from operations when assumed conversion of the debentures and OP Units is dilutive. The conversion of the debentures, that were redeemed on January 24, 2002, and the OP Units are dilutive and therefore assumed for the three and six months ended June 30, 2002 and 2001. Management believes funds from operations should be considered along with, but not as an alternative to, net earnings as defined by generally accepted accounting principles as a measure of the Company's operating performance. Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

The following data is presented with respect to the calculation of funds from operations under the NAREIT definition for the three and six months ended June 30, 2002 and 2001 (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
NET EARNINGS	\$ 6,321	\$ 7,893	\$12,268	\$13,881
Extraordinary loss on extinguishment of debt	-	-	156	-
Gain on sales of properties	-	(2,498)	-	(2,498)
Depreciation *.	3,876	3,735	7,728	7,390
Amortization of capitalized leasing fees *.	332	308	650	595
	10,529	9,438	20,802	19,368
FUNDS FROM OPERATIONS				
Interest on convertible debentures	-	425	109	850
Amortization of convertible debenture costs	-	25	7	50
Amounts attributable to minority interests	204	313	406	446
	\$10,733	\$10,201	\$21,324	\$20,714
FULLY DILUTED FUNDS FROM OPERATIONS				

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FULLY DILUTED FUNDS FROM OPERATIONS PER SHARE . .	\$ 0.32	\$ 0.31	\$ 0.65	\$ 0.63
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APPLICABLE WEIGHTED AVERAGE SHARES.	33,701	33,278	32,838	33,199
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