EASTGROUP PROPERTIES INC
Form 10-Q
October 23, 2017

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

FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2017 COMMISSION FILE NUMBER 1-07094

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer (x)	Accelerated Filer ( )	Non-accelerated Filer ( ) (Do not check if a smaller reporting company)
Smaller Reporting Company ( )	Emerging Growth Company ( )	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ( )

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

The number of shares of common stock, $.0001 par value, outstanding as of October 20, 2017 was 34,424,668.

-1-

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES

FORM 10-Q

TABLE OF CONTENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Balance Sheets, September 30, 2017 and December 31, 2016 (unaudited)	3
	Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2017 and 2016 (unaudited)	4
	Consolidated Statement of Changes in Equity for the nine months ended September 30, 2017 (unaudited)	5
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited)	6
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	38
Item 4.	Controls and Procedures	39
PART II.	OTHER INFORMATION	
Item 1A.	Risk Factors	40
Item 4.	Mine Safety Disclosures	40
Item 6.	Exhibits	40
SIGNATURES		
Authorized signatures		41

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

	September 30, 2017	December 31, 2016
ASSETS		
Real estate properties	$ 2,306,017	2,113,073
Development	204,197	293,908
	2,510,214	2,406,981
Less accumulated depreciation	(732,566)	(694,250)
	1,777,648	1,712,731
Unconsolidated investment	7,836	7,681
Cash	10	522
Other assets	108,499	104,830
TOTAL ASSETS	$ 1,893,993	1,825,764
LIABILITIES AND EQUITY		
LIABILITIES		
Unsecured bank credit facilities	$ 216,643	190,990
Unsecured debt	653,178	652,838
Secured debt	202,178	257,505
Accounts payable and accrued expenses	66,830	52,701
Other liabilities	28,990	29,864
Total Liabilities	1,167,819	1,183,898
EQUITY		
Stockholders’ Equity:		
Common shares; $.0001 par value; 70,000,000 shares authorized; 34,424,668 shares issued and outstanding at September 30, 2017 and 33,332,213 at December 31, 2016	3	3
Excess shares; $.0001 par value; 30,000,000 shares authorized; no shares issued	—	—
Additional paid-in capital on common shares	1,031,592	949,318
Distributions in excess of earnings	(312,392)	(313,655)
Accumulated other comprehensive income	2,645	1,995
Total Stockholders’ Equity	721,848	637,661
Noncontrolling interest in joint ventures	4,326	4,205
Total Equity	726,174	641,866
TOTAL LIABILITIES AND EQUITY	$ 1,893,993	1,825,764

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES				
Income from real estate operations	$68,712	63,178	202,704	186,628
Other revenue	34	12	90	68
	68,746	63,190	202,794	186,696
EXPENSES				
Expenses from real estate operations	20,109	18,552	59,360	54,130
Depreciation and amortization	21,011	19,361	62,101	57,756
General and administrative	3,205	2,328	11,586	10,663
Acquisition costs	—	161	—	161
	44,325	40,402	133,047	122,710
OPERATING INCOME	24,421	22,788	69,747	63,986
OTHER INCOME (EXPENSE)				
Interest expense	(8,704)	(8,841)	(26,405)	(27,078)
Gain on sales of real estate investments	—	—	21,855	42,313
Other	255	853	725	1,502
NET INCOME	15,972	14,800	65,922	80,723
Net income attributable to noncontrolling interest in joint ventures	(88)	(139)	(329)	(438)
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	15,884	14,661	65,593	80,285
Other comprehensive income (loss) - cash flow hedges	224	2,606	650	(6,253)
TOTAL COMPREHENSIVE INCOME	$16,108	17,267	66,243	74,032
BASIC PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Net income attributable to common stockholders	$.46	.45	1.94	2.47
Weighted average shares outstanding	34,215	32,741	33,857	32,458
DILUTED PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Net income attributable to common stockholders	$.46	.45	1.93	2.47
Weighted average shares outstanding	34,290	32,823	33,905	32,519

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Common Stock	Additional Paid-In Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest in Joint Ventures	Total
BALANCE, DECEMBER 31, 2016	$ 3	949,318	(313,655)	1,995	4,205	641,866
Net income	—	—	65,593	—	329	65,922
Net unrealized change in fair value of cash flow hedges	—	—	—	650	—	650
Common dividends declared – $1.88 per share	—	—	(64,330)	—	—	(64,330)
Stock-based compensation, net of forfeitures	—	5,653	—	—	—	5,653
Issuance of 1,037,605 shares of common stock, common stock offering, net of expenses	—	78,956	—	—	—	78,956
Issuance of 2,097 shares of common stock, dividend reinvestment plan	—	170	—	—	—	170
Withheld 33,695 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock	—	(2,505)	—	—	—	(2,505)
Distributions to noncontrolling interest	—	—	—	—	(308)	(308)
Contributions from noncontrolling interest	—	—	—	—	100	100
BALANCE, SEPTEMBER 30, 2017	$ 3	1,031,592	(312,392)	2,645	4,326	726,174

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Nine Months Ended September 30,	
	2017	2016
OPERATING ACTIVITIES		
Net income	$65,922	80,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	62,101	57,756
Stock-based compensation expense	4,266	3,959
Gain, net of loss, on sales of real estate investments and non-operating real estate	(21,815)	(43,046)
Changes in operating assets and liabilities:		
Accrued income and other assets	881	2,061
Accounts payable, accrued expenses and prepaid rent	10,586	5,221
Other	765	278
NET CASH PROVIDED BY OPERATING ACTIVITIES	122,706	106,952
INVESTING ACTIVITIES		
Real estate development	(80,462)	(94,781)
Purchases of real estate	(36,739)	(24,955)
Real estate improvements	(18,378)	(17,591)
Net proceeds from sales of real estate investments and non-operating real estate	39,934	77,298
Repayments on mortgage loans receivable	96	91
Changes in accrued development costs	2,032	7,469
Changes in other assets and other liabilities	(11,240)	(11,588)
NET CASH USED IN INVESTING ACTIVITIES	(104,757)	(64,057)
FINANCING ACTIVITIES		
Proceeds from unsecured bank credit facilities	281,342	444,314
Repayments on unsecured bank credit facilities	(255,988)	(388,569)
Proceeds from unsecured debt	—	105,000
Repayments on unsecured debt	—	(80,000)
Repayments on secured debt	(55,478)	(89,295)
Debt issuance costs	(129)	(1,165)
Distributions paid to stockholders (not including dividends accrued on unvested restricted stock)	(64,623)	(60,418)
Proceeds from common stock offerings	78,956	29,643
	170	179

Proceeds from dividend reinvestment plan		
Other	(2,711)	(2,599)
NET CASH USED IN FINANCING ACTIVITIES	(18,461)	(42,910)
DECREASE IN CASH AND CASH EQUIVALENTS	(512)	(15)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	522	48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$10	33
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amount capitalized of $4,242 and $3,737 for 2017 and 2016, respectively	$24,978	25,977

See accompanying Notes to Consolidated Financial Statements (unaudited).

-6-

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

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements of EastGroup Properties, Inc. ("EastGroup" or "the Company") have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements contained in the 2016 annual report on Form 10-K and the notes thereto. Certain reclassifications have been made in the 2016 consolidated financial statements to conform to the 2017 presentation.

(2) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EastGroup Properties, Inc., its wholly owned subsidiaries and its investment in any joint ventures in which the Company has a controlling interest. At September 30, 2017 and December 31, 2016, the Company had a controlling interest in one joint venture, the 80% owned University Business Center. The Company records 100% of the joint ventures' assets, liabilities, revenues and expenses with noncontrolling interests provided for in accordance with the joint venture agreements. EastGroup previously owned 80% of Castilian Research Center. During the second quarter of 2016, Castilian Research Center was sold, and the joint venture was subsequently terminated. The equity method of accounting is used for the Company's 50% undivided tenant-in-common interest in Industry Distribution Center II. All significant intercompany transactions and accounts have been eliminated in consolidation.

(3) USE OF ESTIMATES

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

(4) REAL ESTATE PROPERTIES

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

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows (including estimated future expenditures necessary to substantially complete the asset) expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the periods ended September 30, 2017 and December 31, 2016, the Company did not identify any impairment charges which should be recorded.

Depreciation of buildings and other improvements is computed using the straight-line method over estimated useful lives of generally 40 years for buildings and 3 to 15 years for improvements. Building improvements are capitalized, while maintenance and repair expenses are charged to expense as incurred. Significant renovations and improvements that improve or extend the useful life of the assets are capitalized. Depreciation expense was $17,323,000 and $51,070,000 for the three and nine months ended September 30, 2017, respectively, and $15,855,000 and $47,273,000 for the same periods in 2016.

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

The Company’s Real estate properties and Development at September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Real estate properties:		
Land	$341,141	308,931
Buildings and building improvements	1,569,982	1,435,309
Tenant and other improvements	394,894	368,833
Development	204,197	293,908
	2,510,214	2,406,981
Less accumulated depreciation	(732,566)	(694,250)
	$1,777,648	1,712,731

(5) DEVELOPMENT

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

(6) REAL ESTATE PROPERTY ACQUISITIONS AND ACQUIRED INTANGIBLES

Upon acquisition of real estate properties, EastGroup applies the principles of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations. Prior to the Company's adoption of Accounting Standards Update (ASU) 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, effective October 1, 2016, acquisition-related costs were recognized as expenses in the periods in which the costs were incurred and the services were received.

As discussed in Note 18, beginning with acquisitions after October 1, 2016, the Company follows the guidance in ASU 2017-01, which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the new guidance, companies are required to utilize an initial screening test to determine whether substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set is not a business. EastGroup has determined that its real estate property acquisitions in the first nine months of 2017 are considered to be acquisitions of groups of similar identifiable assets; therefore, the acquisitions are not considered to be acquisitions of a business. As a result, the Company has capitalized acquisition costs related to its 2017 acquisitions.

The FASB Codification provides guidance on how to properly determine the allocation of the purchase price among the individual components of both the tangible and intangible assets based on their respective fair values. Goodwill for business combinations is recorded when the purchase price exceeds the fair value of the assets and liabilities acquired. Factors considered by management in allocating the cost of the properties acquired include an estimate of

carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. The allocation to tangible assets (land, building and improvements) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models. The Company determines whether any financing assumed is above or below market based upon comparison to similar financing terms for similar properties. The cost of the properties acquired may be adjusted based on indebtedness assumed from the seller that is determined to be above or below market rates.

The purchase price is also allocated among the following categories of intangible assets: the above or below market component of in-place leases, the value of in-place leases, and the value of customer relationships. The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate reflecting the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above and below market leases are included in Other assets and Other liabilities,

respectively, on the Consolidated Balance Sheets and are amortized to rental income over the remaining terms of the respective leases. The total amount of intangible assets is further allocated to in-place lease values and customer relationship values based upon management's assessment of their respective values. These intangible assets are included in Other assets on the Consolidated Balance Sheets and are amortized over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

Amortization expense for in-place lease intangibles was $1,101,000 and $3,455,000 for the three and nine months ended September 30, 2017, and $1,056,000 and $3,202,000 for the same periods in 2016. Amortization of above and below market leases increased rental income by $129,000 and $406,000 for the three and nine months ended September 30, 2017, and $121,000 and $370,000 for the same periods in 2016.

During the first nine months of 2017, EastGroup acquired the following operating properties: Shiloh 400 and Broadmoor Commerce Park in Atlanta and Southpark Corporate Center 5-7 in Austin. The total cost for the properties acquired by the Company during the nine months ended September 30, 2017, was $36,475,000, of which $33,665,000 was allocated to Real estate properties. EastGroup allocated $5,700,000 of the total purchase price to land using third party land valuations for the Atlanta and Austin markets. The market values are considered to be Level 3 inputs as defined by ASC 820, Fair Value Measurement (see Note 16 for additional information on ASC 820). Intangibles associated with the purchase of real estate were allocated as follows: $3,016,000 to in-place lease intangibles and $114,000 to above market leases (both included in Other assets on the Consolidated Balance Sheets), and $320,000 to below market leases (included in Other liabilities on the Consolidated Balance Sheets).

During the year ended December 31, 2016, EastGroup acquired the following development-stage properties: Parc North in Fort Worth (Dallas), Weston Commerce Park in Weston (South Florida), and Jones Corporate Park in Las Vegas. At the time of acquisition, the properties were classified as under construction or in the lease-up phase of development. In addition, the Company acquired Flagler Center, a three-building business distribution complex in Jacksonville, Florida.

The properties purchased in 2016 were acquired for a total cost of $112,158,000, of which $22,228,000 was allocated to Real estate properties and $84,490,000 was allocated to Development. EastGroup allocated $29,164,000 of the total purchase price to land using third party land valuations for the Dallas, South Florida, Las Vegas and Jacksonville markets. The market values are considered to be Level 3 inputs as defined by ASC 820. Intangibles associated with the purchase of real estate were allocated as follows: $5,941,000 to in-place lease intangibles and $393,000 to above market leases (included in Other assets on the Consolidated Balance Sheets), and $894,000 to below market leases (included in Other liabilities on the Consolidated Balance Sheets).

The intangible assets, including in-place lease intangibles, above market leases and below market leases, are amortized over the remaining lives of the associated leases in place at the time of acquisition.

The Company periodically reviews the recoverability of goodwill (at least annually) and the recoverability of other intangibles (on a quarterly basis) for possible impairment. In management's opinion, no impairment of goodwill or other intangibles existed during the periods ended September 30, 2017 and December 31, 2016.

(7) REAL ESTATE SOLD AND HELD FOR SALE/DISCONTINUED OPERATIONS

The Company considers a real estate property to be held for sale when it meets the criteria established under ASC 360, Property, Plant and Equipment, including when it is probable that the property will be sold within a year. Real estate properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. The Company did not classify any properties as held for sale as of

September 30, 2017 and December 31, 2016.

In accordance with FASB ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, the Company would report a disposal of a component of an entity or a group of components of an entity in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component or group of components meets the criteria to be classified as held for sale or when the component or group of components is disposed of by sale or other than by sale. In addition, the Company would provide additional disclosures about both discontinued operations and the disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements. EastGroup performs an analysis of properties sold to determine whether the sales qualify for discontinued operations presentation.

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

The Company does not consider its sales in 2016 and the first nine months of 2017 to be disposals of a component of an entity or a group of components of an entity representing a strategic shift that has (or will have) a major effect on the entity's operations and financial results.

The Company sold Stemmons Circle and Techway Southwest I-IV during the first nine months of 2017. The properties, which contain 514,000 square feet located in Dallas and Houston, were sold for $38.0 million and the Company recognized net gains on the sales of $21.9 million. The Company also sold 5 acres of land in Dallas for $850,000 and recognized a loss of $40,000.

During the twelve months ended December 31, 2016, EastGroup sold the following operating properties: Northwest Point Distribution and Service Centers, North Stemmons II and III, America Plaza, Lockwood Distribution Center, West Loop Distribution Center 1 & 2, two of its four Interstate Commons Distribution Center buildings, Castilian Research Center and Memphis I. The properties, which contain 1,256,000 square feet and are located in Houston, Dallas, Phoenix, Santa Barbara and Memphis, were sold for $75.7 million and the Company recognized net gains on the sales of $42.2 million. The Company also sold 25 acres of land in Houston, Dallas and Orlando for $5.4 million and recognized gains on sales of $733,000.

The results of operations and gains and losses on sales for the properties sold during the periods presented are reported in continuing operations on the Consolidated Statements of Income and Comprehensive Income. The gains and losses on the sales of land are included in Other, and the gains on the sales of operating properties are included in Gain on sales of real estate investments.

(8) OTHER ASSETS

A summary of the Company’s Other assets follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Leasing costs (principally commissions)	$70,322	65,521
Accumulated amortization of leasing costs	(26,266)	(26,340)
Leasing costs (principally commissions), net of accumulated amortization	44,056	39,181
Straight-line rents receivable	30,739	28,369
Allowance for doubtful accounts on straight-line rents receivable	(158)	(76)
Straight-line rents receivable, net of allowance for doubtful accounts	30,581	28,293
Accounts receivable	3,907	6,824
Allowance for doubtful accounts on accounts receivable	(566)	(809)
Accounts receivable, net of allowance for doubtful accounts	3,341	6,015
Acquired in-place lease intangibles	21,814	21,231
Accumulated amortization of acquired in-place lease intangibles	(9,664)	(8,642)
Acquired in-place lease intangibles, net of accumulated amortization	12,150	12,589
Acquired above market lease intangibles	1,549	1,594
Accumulated amortization of acquired above market lease intangibles	(738)	(736)
Acquired above market lease intangibles, net of accumulated amortization	811	858

Mortgage loans receivable	4,656	4,752
Interest rate swap assets	4,183	4,546
Goodwill	990	990
Prepaid expenses and other assets	7,731	7,606
Total Other assets	$108,499	104,830

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

(9) DEBT

The Company's debt is detailed below. EastGroup presents debt issuance costs as reductions of Secured debt, Unsecured debt and Unsecured bank credit facilities on the Consolidated Balance Sheets.

	September 30, 2017	December 31, 2016
	(In thousands)	
Unsecured bank credit facilities - variable rate, carrying amount	$137,374	112,020
Unsecured bank credit facilities - fixed rate, carrying amount [(1)]	80,000	80,000
Unamortized debt issuance costs	(731)	(1,030)
Unsecured bank credit facilities	216,643	190,990
Unsecured debt - fixed rate, carrying amount [(1)]	655,000	655,000
Unamortized debt issuance costs	(1,822)	(2,162)
Unsecured debt	653,178	652,838
Secured debt - fixed rate, carrying amount [(1)]	203,093	258,594
Unamortized debt issuance costs	(915)	(1,089)
Secured debt	202,178	257,505
Total debt	$1,071,999	1,101,333

(1) These loans have a fixed interest rate or an effectively fixed interest rate due to interest rate swaps.

Scheduled principal payments on long-term debt, including Secured debt and Unsecured debt (not including Unsecured bank credit facilities), as of September 30, 2017, are as follows:

Years Ending December 31,	(In thousands)
Remainder of 2017	$ 2,736
2018	61,316
2019	130,569
2020	114,096
2021	129,563
2022 and beyond	419,813
Total	$ 858,093

Properties encumbered by EastGroup's Secured debt were disclosed in the Company's Form 10-K for the year ended December 31, 2016. The following properties were encumbered by one of the Company's secured loans disclosed in the Form 10-K: Colorado Crossing, Interstate I-III, Rojas, Steele Creek 1 & 2, Stemmons Circle, Venture and World Houston 3-9. During the nine months ended September 30, 2017, the Company closed a collateral release for Stemmons Circle. Subsequent to the collateral release, the Company sold Stemmons Circle.

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

(10) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of the Company's Accounts payable and accrued expenses follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Property taxes payable	$31,408	14,186
Development costs payable	11,876	9,844
Property capital expenditures payable	3,924	2,304
Interest payable	4,329	3,822
Dividends payable on unvested restricted stock	1,237	1,530
Book overdraft [1]	7,565	14,452
Other payables and accrued expenses	6,491	6,563
Total Accounts payable and accrued expenses	$66,830	52,701

[1] Represents unfunded outstanding checks for which the bank has not advanced cash to the Company.

(11) OTHER LIABILITIES

A summary of the Company's Other liabilities follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Security deposits	$16,361	14,782
Prepaid rent and other deferred income	8,702	9,795
Acquired below-market lease intangibles	4,071	4,012
Accumulated amortization of below-market lease intangibles	(1,968)	(1,662)
Acquired below-market lease intangibles, net of accumulated amortization	2,103	2,350
Interest rate swap liabilities	1,552	2,578
Prepaid tenant improvement reimbursements	256	343
Other liabilities	16	16
Total Other liabilities	$28,990	29,864

(12) COMPREHENSIVE INCOME

Total Comprehensive Income is comprised of net income plus all other changes in equity from non-owner sources and is presented on the Consolidated Statements of Income and Comprehensive Income. The components of Accumulated other comprehensive income (loss) are presented in the Company's Consolidated Statement of Changes in Equity and are summarized below. See Note 13 for information regarding the Company's interest rate swaps.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):				

Balance at beginning of period	$2,421	(12,315)	1,995	(3,456)
Change in fair value of interest rate swaps - cash flow hedges	224	2,606	650	(6,253)
Balance at end of period	$2,645	(9,709)	2,645	(9,709)

(13) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risk, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and, to a limited extent, the use of derivative instruments.

Specifically, the Company has entered into derivative instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative instruments, described below, are used to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to certain of the Company's borrowings.

The Company's objective in using interest rate derivatives is to change variable interest rates to fixed interest rates by using interest rate swaps. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

As of September 30, 2017, the Company had seven interest rate swaps outstanding, all of which are used to hedge the variable cash flows associated with unsecured loans. All of the Company's interest rate swaps convert the related loans' LIBOR rate components to effectively fixed interest rates, and the Company has concluded that each of the hedging relationships is highly effective.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in Other comprehensive income (loss) and is subsequently reclassified into earnings through interest expense as interest payments are made in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives, which is immaterial for the periods reported, is recognized directly in earnings (included in Other on the Consolidated Statements of Income and Comprehensive Income).

Amounts reported in Other comprehensive income (loss) related to derivatives will be reclassified to Interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates the swap interest payments will be $423,000 over the next twelve months. These payments approximate the expected cash interest payments for the swaps. Since the interest payments on the swaps in combination with the associated debt have been effectively fixed, this estimate is not in addition to the Company's total expected combined interest payments or expense for the next twelve months.

The Company's valuation methodology for over-the-counter ("OTC") derivatives is to discount cash flows based on Overnight Index Swap ("OIS") rates. Uncollateralized or partially-collateralized trades are discounted at OIS rates, but include appropriate economic adjustments for funding costs (i.e., a LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk. The Company calculates its derivative valuations using mid-market prices.

As of September 30, 2017 and December 31, 2016, the Company had the following outstanding interest rate derivatives that are designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Notional Amount as of September 30, 2017	Notional Amount as of December 31, 2016
	(In thousands)	

Interest Rate Swap	$80,000	$80,000
Interest Rate Swap	$75,000	$75,000
Interest Rate Swap	$75,000	$75,000
Interest Rate Swap	$65,000	$65,000
Interest Rate Swap	$60,000	$60,000
Interest Rate Swap	$40,000	$40,000
Interest Rate Swap	$15,000	$15,000

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016. See Note 16 for additional information on the fair value of the Company's interest rate swaps.

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

	Derivatives As of September 30, 2017		Derivatives As of December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)			
Derivatives designated as cash flow hedges:				
Interest rate swap assets	Other assets	$4,183	Other assets	$4,546
Interest rate swap liabilities	Other liabilities	1,552	Other liabilities	2,578

The table below presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS				
Interest Rate Swaps:				
Amount of income (loss) recognized in Other comprehensive income (loss) on derivatives	$(102)	1,550	(996)	(9,279)
Amount of loss reclassified from Accumulated other comprehensive income (loss) into Interest expense	326	1,056	1,646	3,026

See Note 12 for additional information on the Company's Accumulated other comprehensive income (loss) resulting from its interest rate swaps.

Derivative financial agreements expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with financial institutions the Company regards as credit-worthy.

The Company has an agreement with its derivative counterparties containing a provision stating that the Company could be declared in default on its derivative obligations if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender.

As of September 30, 2017, the fair value of derivatives in an asset position related to these agreements was $4,183,000, and the fair value of derivatives in a liability position related to these agreements was $1,552,000. As of September 30, 2017, the Company has not posted any collateral related to these arrangements. If the Company had breached any of the contractual provisions of the derivative contracts, it could have been required to settle its obligations under the agreements at their termination value. The swap termination value of derivatives in an asset position was an asset in the amount of $4,222,000, and the swap termination value of derivatives in a liability position was a liability in the amount of $1,583,000.

(14) EARNINGS PER SHARE

The Company applies ASC 260, Earnings Per Share, which requires companies to present basic and diluted earnings per share (EPS). Basic EPS represents the amount of earnings for the period attributable to each share of common

stock outstanding during the reporting period. The Company's basic EPS is calculated by dividing Net Income Attributable to EastGroup Properties, Inc. Common Stockholders by the weighted average number of common shares outstanding. The weighted average number of common shares outstanding does not include any potentially dilutive securities or any unvested restricted shares of common stock. These unvested restricted shares, although classified as issued and outstanding, are considered forfeitable until the restrictions lapse and will not be included in the basic EPS calculation until the shares are vested.

Diluted EPS represents the amount of earnings for the period attributable to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. The Company calculates diluted EPS by dividing Net Income Attributable to EastGroup Properties, Inc. Common Stockholders by the weighted average number of common shares outstanding plus the dilutive effect of unvested restricted stock. The dilutive effect of unvested restricted stock is determined using the treasury stock method.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
BASIC EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$15,884	14,661	65,593	80,285
Denominator – weighted average shares outstanding	34,215	32,741	33,857	32,458
DILUTED EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$15,884	14,661	65,593	80,285
Denominator:				
Weighted average shares outstanding	34,215	32,741	33,857	32,458
Unvested restricted stock	75	82	48	61
Total Shares	34,290	32,823	33,905	32,519

(15) STOCK-BASED COMPENSATION

EastGroup applies the provisions of ASC 718, Compensation - Stock Compensation, to account for its stock-based compensation plans. ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements and that the cost be measured on the fair value of the equity or liability instruments issued.

Stock-based compensation cost for employees was $1,319,000 and $4,952,000 for the three and nine months ended September 30, 2017, respectively, of which $308,000 and $1,177,000 were capitalized as part of the Company's development costs. For the three and nine months ended September 30, 2016, stock-based compensation cost for employees was $706,000 and $4,371,000, respectively, of which $232,000 and $839,000 were capitalized as part of the Company's development costs.

Stock-based compensation expense for directors was $168,000 and $491,000 for the three and nine months ended September 30, 2017, respectively, and $161,000 and $427,000 for the same periods of 2016.

In March 2017, the Compensation Committee of the Company's Board of Directors (the Committee) evaluated the Company's performance compared to certain annual performance measures (primarily funds from operations (FFO) per share and total shareholder return) for the year ended December 31, 2016. Based on the evaluation, 36,571 shares were awarded to the Company's executive officers at the grant date (March 2, 2017) fair value of $74.80 per share. These shares vested 20% on the date shares were determined and awarded and will vest 20% per year on January 1 in years 2018, 2019, 2020 and 2021. The shares are being expensed on a straight-line basis over the remaining service period.

Also in March 2017, the Committee evaluated the Company's total shareholder return, both on an absolute basis for 2016 as well as on a relative basis compared to the NAREIT Equity Index, NAREIT Industrial Index and Russell 2000 Index for the five-year period ended December 31, 2016. Based on the evaluation, 33,289 shares were awarded to the Company's executive officers at the grant date (March 2, 2017) fair value of $74.80 per share. These shares vested 25% on the date shares were determined and awarded and will vest 25% per year on January 1 in years 2018, 2019 and 2020. The shares are being expensed on a straight-line basis over the remaining service period.

Notwithstanding the foregoing, the shares issued to the Company's former Chief Financial Officer under these plans became fully vested on the grant date of the awards in the first quarter of 2017.

In the second quarter of 2017, the Committee approved an equity compensation plan for certain of its executive officers based upon certain annual performance measures for 2017, including funds from operations (FFO) per share, same property net operating income change, general and administrative costs, and fixed charge coverage. During the first quarter of 2018, the Committee will measure the Company's performance for 2017 against bright-line tests established by the Committee on the grant date of May 10, 2017. The number of shares that may be earned for the achievement of the annual performance measures could range from zero to 21,096. These shares, which have a grant date fair value of $78.18, would vest 20% on the date shares are determined and 20% per year on each January 1 for the subsequent four years. On the grant date of May 10, 2017, the Company began recognizing expense for its estimate of the shares that may be earned pursuant to these awards; the shares are being expensed using the graded

vesting attribution method which recognizes each separate vesting portion of the award as a separate award on a straight-line basis over the requisite service period.

Also in the second quarter of 2017, the Committee approved an equity compensation plan for certain of its executive officers based upon the achievement of individual goals for each of the officers included in the plan. Any shares issued pursuant to the individual goals in this compensation plan will be determined by the Committee in its discretion and issued in the first quarter of 2018. The number of shares to be issued on the grant date for the achievement of individual goals could range from zero to 5,274. These shares would vest 20% on the date shares are determined and awarded and 20% per year on each January 1 for the subsequent four years. The Company will begin recognizing the expense for any shares awarded on the grant date in the first quarter of 2018, and the shares will be expensed on a straight-line basis over the remaining service period.

Also in the second quarter of 2017, the Committee approved a long-term equity compensation plan for certain of the Company’s executive officers that includes three components based on total shareholder return and one component based only on continued service as of the vesting dates.

The three long-term equity compensation plan components based on total shareholder return are subject to bright-line tests that will compare the Company's total shareholder return to the NAREIT Equity Index and to the Company's industrial REIT peer group. The first plan will measure the bright-line tests over the one-year period ending December 31, 2017. During the first quarter of 2018, the Committee will measure the Company's performance for the one-year period against bright-line tests established by the Committee on the grant date of May 10, 2017. The number of shares to be earned on the measurement date could range from zero to 4,730. These shares would vest 100% on the date the earned shares are determined. On the grant date of May 10, 2017, the Company began recognizing expense for this plan based on the grant date fair value of the awards which was determined using a simulation pricing model developed to specifically accommodate the unique features of the award.

The second plan will measure the bright-line tests over the two-year period ending December 31, 2018. During the first quarter of 2019, the Committee will measure the Company's performance for the two-year period against bright-line tests established by the Committee on the grant date of May 10, 2017. The number of shares to be earned on the measurement date could range from zero to 9,460. These shares would vest 100% on the date the earned shares are determined. On the grant date of May 10, 2017, the Company began recognizing expense for this plan based on the grant date fair value of the awards which was determined using a simulation pricing model developed to specifically accommodate the unique features of the award.

The third plan will measure the bright-line tests over the three-year period ending December 31, 2019. During the first quarter of 2020, the Committee will measure the Company's performance for the three-year period against bright-line tests established by the Committee on the grant date of May 10, 2017. The number of shares to be earned on the measurement date could range from zero to 18,917. These shares would vest 75% on the date the earned shares are determined in the first quarter of 2020 and 25% on January 1, 2021. On the grant date of May 10, 2017, the Company began recognizing expense for this plan based on the grant date fair value of the awards which was determined using a simulation pricing model developed to specifically accommodate the unique features of the award.

The component of the long-term equity compensation plan based only on continued service as of the vesting dates was awarded on May 10, 2017. On that date, 5,406 shares were granted to certain executive officers subject only to continued service as of the vesting dates. These shares, which have a grant date fair value of $78.18 per share, will vest 25% in the first quarter of 2018 and 25% on January 1 in years 2019, 2020 and 2021. The shares are being expensed on a straight-line basis over the remaining service period.

Also during the second quarter of 2017, 5,169 shares were granted to certain executive officers subject only to continued service as of the vesting dates. These shares, which have a weighted average grant date fair value of $81.27 per share, will vest 20% per year on January 1 in years 2018, 2019, 2020, 2021 and 2022. The shares are being expensed on a straight-line basis over the remaining service period.

Also during the second quarter of 2017, 12,850 shares were granted to certain non-executive officers subject only to continued service as of the vesting dates. These shares, which have a grant date fair value of $84.57 per share, will vest 20% per year on January 1 in years 2018, 2019, 2020, 2021 and 2022. The shares are being expensed on a straight-line basis over the remaining service period.

During the third quarter of 2017, 282 shares were granted to a newly elected non-employee Director subject only to continued service as of the vesting date. The shares, which have a grant date fair value of $88.86 per share, will vest 25% per year on September 8 in years 2018, 2019, 2020 and 2021. The shares are being expensed on a straight-line basis over the remaining service period.

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

Following is a summary of the total restricted shares granted, forfeited and delivered (vested) to participants with the related weighted average grant date fair value share prices. Of the shares that vested in the first nine months of 2017, the Company withheld 33,695 shares to satisfy the tax obligations for those participants who elected this option as permitted under the applicable equity plan. As of the vesting dates, the aggregate fair value of shares that vested during the first nine months of 2017 was $6,441,000.

Award Activity:	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	152,748	$ 63.18	162,191	$ 51.98
Granted [1]	282	88.86	93,567	76.74
Forfeited	—	—	(16,000)	36.98
Vested	—	—	(86,728)	61.62
Unvested at end of period	153,030	$ 63.22	153,030	$ 63.22

[1] Does not include the restricted shares that may be earned if the performance goals established in 2017 for annual and long-term performance periods are achieved. Depending on the actual level of achievement of the goals at the end of the open performance periods, the number of shares earned could range from zero to 59,477.

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments in accordance with ASC 820 at September 30, 2017 and December 31, 2016.

	September 30, 2017		December 31, 2016	
	Carrying Amount [1]	Fair Value	Carrying Amount [1]	Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$10	10	522	522
Mortgage loans receivable	4,656	4,657	4,752	4,747
Interest rate swap assets	4,183	4,183	4,546	4,546

Financial Liabilities:				
Unsecured bank credit facilities - variable rate [2]	137,374	137,380	112,020	111,923
Unsecured bank credit facilities - fixed rate [2]	80,000	80,002	80,000	79,998
Unsecured debt [2]	655,000	644,834	655,000	623,147
Secured debt [2]	203,093	210,880	258,594	266,585
Interest rate swap liabilities	1,552	1,552	2,578	2,578

(1) Carrying amounts shown in the table are included on the Consolidated Balance Sheets under the indicated captions, except as explained in the notes below.
(2) Carrying amounts and fair values shown in the table exclude debt issuance costs (see Note 9 for additional information).

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

Cash and cash equivalents: The carrying amounts approximate fair value due to the short maturity of those instruments.
Mortgage loans receivable (included in Other assets on the Consolidated Balance Sheets): The fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (Level 2 input).

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

Interest rate swap assets (included in Other assets on the Consolidated Balance Sheets): The instruments are recorded at fair value based on models using inputs, such as interest rate yield curves, LIBOR swap curves and OIS curves, observable for substantially the full term of the contract (Level 2 input). See Note 13 for additional information on the Company's interest rate swaps.
Unsecured bank credit facilities: The fair value of the Company's unsecured bank credit facilities is estimated by discounting expected cash flows at current market rates (Level 2 input), excluding the effects of debt issuance costs.
Unsecured debt: The fair value of the Company's unsecured debt is estimated by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers (Level 2 input), excluding the effects of debt issuance costs.
Secured debt: The fair value of the Company's secured debt is estimated by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers (Level 2 input), excluding the effects of debt issuance costs.
Interest rate swap liabilities (included in Other liabilities on the Consolidated Balance Sheets): The instruments are recorded at fair value based on models using inputs, such as interest rate yield curves, LIBOR swap curves and OIS curves, observable for substantially the full term of the contract (Level 2 input). See Note 13 for additional information on the Company's interest rate swaps.

(17) RISKS AND UNCERTAINTIES

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

(18) RECENT ACCOUNTING PRONOUNCEMENTS

EastGroup has evaluated all ASUs recently released by the FASB through the date the financial statements were issued and determined that the following ASUs apply to the Company.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The FASB issued further guidance in ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, that provides clarifying guidance in certain narrow areas and adds some practical expedients. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The effective date of ASU 2014-09 was extended by one year by ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The new standard is effective for the Company on January 1, 2018, and the Company plans to use the modified retrospective approach upon adoption. The Company has made significant progress in evaluating the effect of ASU 2014-09 on its consolidated financial statements and related disclosures beginning with the Form 10-Q for the period ending March 31, 2018. The Company has completed its inventory of its sources of revenue and does not believe there will be a material financial statement impact or that its pattern of revenue recognition will be materially impacted by the adoption of ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,which requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized costs on the balance sheet. EastGroup plans to adopt ASU 2016-01 effective January 1, 2018. The Company does not anticipate the adoption of

ASU 2016-01 will have a material impact on the Company's financial condition or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company is a lessee on a limited number of leases, including office and ground leases, and while the adoption of ASU 2016-02 will impact the Company's accounting for office and ground leases, the Company anticipates the impact will not be material to its overall financial condition and results of operations. Lessor accounting is largely unchanged under ASU 2016-02. The Company's primary revenue is rental income; as such, the Company is a lessor on a significant number of leases. The Company is continuing to evaluate the potential impacts of the ASU and believes it will continue to account for its leases in substantially the same manner. The most significant changes for the Company related to lessor accounting include bifurcating its revenue into lease and non-lease components and the new standard's narrow definition of initial direct costs for leases. The new definition will result in certain costs (primarily legal costs

related to lease negotiations) being expensed rather than capitalized upon adoption of the new standard. Public business entities are required to apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. EastGroup plans to adopt ASU 2016-02 effective January 1, 2019. The Company is continuing the process of evaluating and quantifying the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures beginning with the Form 10-Q for the period ending March 31, 2019.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU is intended to improve the accounting for share-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment awards are simplified with the ASU, including income tax consequences, classification of awards as equity or liabilities and classification on the Consolidated Statements of Cash Flows. ASU 2016-09 is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those fiscal years; early adoption is permitted. EastGroup adopted ASU 2016-09 effective January 1, 2017. As a result, the Company elected to reverse compensation cost of any forfeited awards when they occur and will continue to classify the cash flows resulting from remitting cash to the tax authorities for the payment of taxes on the vesting of share-based payment awards as a financing activity on the Consolidated Statements of Cash Flows. In addition, upon vesting of share-based payments, the Company will withhold up to the maximum individual statutory tax rate and classify the entire award as equity. The adoption of ASU 2016-09 did not have a material impact on the Company's financial condition or results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses certain cash flow issues, including how debt prepayments or debt extinguishment costs and distributions received from equity method investees are presented. ASU 2016-15 is effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, and the Company has adopted ASU 2016-15 effective January 1, 2017. The adoption of ASU 2016-15 did not have a material impact on the Company's financial condition or results of operations.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU is intended to provide a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the new guidance, companies are required to utilize an initial screening test to determine whether substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set is not a business. The Company has determined that some of its real estate property acquisitions may be considered to be acquisitions of groups of similar identifiable assets; therefore, the acquisitions are not considered to be acquisitions of a business. EastGroup adopted ASU 2017-01 for transactions beginning on October 1, 2016. As a result, the Company has capitalized acquisition costs related to its fourth quarter 2016 and first quarter 2017 acquisitions as they were determined not to be acquisitions of a business.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the measurement of goodwill impairment by eliminating the requirement of performing a hypothetical purchase price allocation to measure goodwill impairment. The Company adopted ASU 2017-04 effective January 1, 2017, and is applying the new guidance for goodwill impairment tests with measurement dates after January 1, 2017. The adoption of ASU 2017-04 did not have a material impact on the Company's financial condition or results of operations.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies what constitutes a modification of a share-based payment award. The ASU is intended to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. ASU 2017-09 is

effective for public entities for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company plans to adopt ASU 2017-09 on January 1, 2018, and it does not anticipate that the adoption of ASU 2017-09 will have a material impact on its financial condition or results of operations, as the Company does not expect to have any modifications to share-based payment awards. However, if the Company does have a modification to an award in the future, it will follow the guidance in ASU 2017-09.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU is intended to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition method is a modified retrospective approach that will require the Company to recognize the cumulative effect of initially applying the ASU as an adjustment to Accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year the entity adopts the ASU. The primary provision in the ASU that will require an adjustment to beginning retained earnings is the change in timing and income statement presentation for ineffectiveness related to cash flow and net investment hedges. As a result of the transition guidance in the ASU, cumulative ineffectiveness that has previously been recognized on cash flow and net investment hedges that are still outstanding and designated as of the date of adoption will be adjusted and removed from beginning retained earnings and

placed in Accumulated other comprehensive income. ASU 2017-12 is effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted; however, the Company plans to adopt ASU 2017-12 on January 1, 2019. While the Company continues to assess all potential impacts of ASU 2017-12, it does not expect the adoption to have a material impact on the Company's financial condition or results of operations.

(19) SUBSEQUENT EVENTS

In September, the Company executed a commitment letter for $60 million of senior unsecured private placement notes with an insurance company. The notes, which are expected to close in mid-December, have a seven-year term and a fixed interest rate of 3.46% with semi-annual interest payments. The notes will not be and have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements.

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

OVERVIEW
EastGroup’s goal is to maximize shareholder value by being a leading provider in its markets of functional, flexible and quality business distribution space for location sensitive customers (primarily in the 10,000 to 50,000 square foot range). The Company develops, acquires and operates distribution facilities, the majority of which are clustered around major transportation features in supply constrained submarkets in major Sunbelt regions. The Company’s core markets are in the states of Florida, Texas, Arizona, California and North Carolina.

EastGroup believes its current operating cash flow and unsecured bank credit facilities provide the capacity to fund the operations of the Company, and the Company also believes it can issue common and/or preferred equity and obtain debt financing. During the first nine months of 2017, EastGroup issued 1,037,605 shares of common stock through its continuous common equity program, providing net proceeds to the Company of $79 million. The Company has also executed a commitment letter for $60 million of senior unsecured private placement notes which it expects to close during fourth quarter 2017. EastGroup's financing and equity issuances are further described in Liquidity and Capital Resources.

The Company’s primary revenue source is rental income; as such, EastGroup’s greatest challenge is leasing space. During the nine months ended September 30, 2017, leases expired on 5,565,000 square feet (15.0% of EastGroup’s total square footage of 37,051,000), and the Company was successful in renewing or re-leasing 84% of the expiring square feet. In addition, EastGroup leased 1,831,000 square feet of other vacant space during this period. During the first nine months of 2017, average rental rates on new and renewal leases increased by 17.1%. Property net operating income (PNOI) from same properties, defined as operating properties owned during the entire current period and prior year reporting period, increased 2.5% for the nine months ended September 30, 2017, as compared to the same period in 2016.

EastGroup’s total leased percentage was 97.4% at September 30, 2017, compared to 97.3% at September 30, 2016. Leases scheduled to expire for the remainder of 2017 were 1.0% of the portfolio on a square foot basis at September 30, 2017, and this percentage was reduced to 0.6% as of October 20, 2017.

The Company generates new sources of leasing revenue through its development and acquisition programs. The Company mitigates risks associated with development through a Board-approved maximum level of land held for development and by adjusting development start dates according to leasing activity.

During the first nine months of 2017, EastGroup acquired 77 acres of development land in San Antonio, Austin, Atlanta and Charlotte for $11.7 million. In addition, the Company began construction of eight development projects containing 987,000 square feet in Dallas, San Antonio, Phoenix, Tampa, Orlando and Charlotte. EastGroup also transferred 12 properties (2,197,000 square feet) in Dallas, San Antonio, Las Vegas, Orlando, Tampa, Charlotte and Phoenix from its development program to real estate properties with costs of $160.1 million at the date of transfer. As of September 30, 2017, EastGroup’s development program consisted of 13 projects (1,682,000 square feet) located in 9 cities. The projected total investment for the development projects, which were collectively 43% leased as of October 20, 2017, is $138 million, of which $51 million remained to be invested as of September 30, 2017.

Also during the nine months ended September 30, 2017, the Company acquired three operating properties containing 421,000 square feet in Atlanta and Austin for $36.5 million.

Typically, the Company initially funds its development and acquisition programs through its $335 million unsecured bank credit facilities (as discussed in Liquidity and Capital Resources). As market conditions permit, EastGroup

issues equity and/or employs fixed-rate debt, including variable-rate debt that has been swapped to an effectively fixed rate through the use of interest rate swaps, to replace short-term bank borrowings. In May, Moody's Investors Service affirmed EastGroup's issuer rating of Baa2 with a stable outlook. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. For future debt issuances, the Company intends to issue primarily unsecured fixed-rate debt, including variable-rate debt that has been swapped to an effectively fixed rate through the use of interest rate swaps. The Company may also access the public debt market in the future as a means to raise capital.

EastGroup has one reportable segment – industrial properties. These properties are primarily located in major Sunbelt regions of the United States, have similar economic characteristics and also meet the other criteria permitting the properties to be aggregated into one reportable segment. The Company’s chief decision makers use two primary measures of operating results in making decisions: (1) property net operating income (PNOI), defined as Income from real estate operations less Expenses from real estate

operations (including market-based internal management fee expense) plus the Company's share of income and property operating expenses from its less-than-wholly-owned real estate investments, and (2) funds from operations attributable to common stockholders (FFO), defined as net income (loss) attributable to common stockholders computed in accordance with U.S. generally accepted accounting principles (GAAP), excluding gains or losses from sales of depreciable real estate property and impairment losses, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The Company calculates FFO based on the National Association of Real Estate Investment Trusts' (NAREIT) definition.

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

PNOI is comprised of Income from real estate operations, less Expenses from real estate operations plus the Company's share of income and property operating expenses from its less-than-wholly-owned real estate investments. PNOI was calculated as follows for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Income from real estate operations	$68,712	63,178	202,704	186,628
Expenses from real estate operations	(20,109)	(18,552)	(59,360)	(54,130)
Noncontrolling interest in PNOI of consolidated 80% joint ventures	(145)	(190)	(493)	(618)
PNOI from 50% owned unconsolidated investment	224	231	673	676
PROPERTY NET OPERATING INCOME (PNOI)	$48,682	44,667	143,524	132,556

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

The following table presents reconciliations of Net Income to PNOI for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
NET INCOME	$15,972	14,800	65,922	80,723
Gain on sales of real estate investments	—	—	(21,855)	(42,313)
(Gain) loss on sales of non-operating real estate	—	(590)	40	(733)
Interest income	(62)	(63)	(185)	(191)
Other income	(34)	(12)	(90)	(68)
Interest rate swap ineffectiveness	—	—	—	5
Depreciation and amortization	21,011	19,361	62,101	57,756
Company's share of depreciation from unconsolidated investment	31	31	93	93
Interest expense	8,704	8,841	26,405	27,078
General and administrative expense	3,205	2,328	11,586	10,663
Acquisition costs	—	161	—	161
Noncontrolling interest in PNOI of consolidated 80% joint ventures	(145)	(190)	(493)	(618)
PROPERTY NET OPERATING INCOME	$48,682	44,667	143,524	132,556

The Company believes FFO is a meaningful supplemental measure of operating performance for equity REITs. The Company believes excluding depreciation and amortization in the calculation of FFO is appropriate since real estate values have historically increased or decreased based on market conditions. FFO is not considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance, nor is it a measure of the Company's liquidity or indicative of funds available to provide for the Company's cash needs, including its ability to make distributions. In addition, FFO, as reported by the Company, may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition. The Company's key drivers affecting FFO are changes in PNOI (as discussed above), interest rates, the amount of leverage the Company employs and general and administrative expenses. The following table presents reconciliations of Net Income Attributable to EastGroup Properties, Inc. Common Stockholders to FFO Attributable to Common Stockholders for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	$15,884	14,661	65,593	80,285
Depreciation and amortization	21,011	19,361	62,101	57,756
Company's share of depreciation from unconsolidated investment	31	31	93	93
Depreciation and amortization from noncontrolling interest	(56)	(49)	(160)	(159)
Gain on sales of real estate investments	—	—	(21,855)	(42,313)
FUNDS FROM OPERATIONS (FFO) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$36,870	34,004	105,772	95,662
Net income attributable to common stockholders per diluted share	$.46	.45	1.93	2.47
Funds from operations (FFO) attributable to common stockholders per diluted share	$1.08	1.04	3.12	2.94

Diluted shares for earnings per share and funds from operations	34,290	32,823	33,905	32,519

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

- The FFO change per share represents the increase or decrease in FFO per share from the current period compared to the same period in the prior year. FFO per share for the third quarter of 2017 was $1.08 per share compared with $1.04 per share for the same period of 2016, an increase of 3.8%. For the nine months ended September 30, 2017, FFO was $3.12 per share compared with $2.94 per share for the same period of 2016, an increase of 6.1%.

- For the three months ended September 30, 2017, PNOI increased by $4,015,000, or 9.0%, compared to the same period in 2016. PNOI increased $2,483,000 from newly developed and redeveloped properties, $1,342,000 from same property operations and $917,000 from 2016 and 2017 acquisitions; PNOI decreased $658,000 from operating properties sold in 2016 and 2017.

For the nine months ended September 30, 2017, PNOI increased by $10,968,000, or 8.3%, compared to the same period in 2016. PNOI increased $7,503,000 from newly developed and redeveloped properties, $3,157,000 from same property operations and $2,628,000 from 2016 and 2017 acquisitions; PNOI decreased $2,157,000 from operating properties sold in 2016 and 2017.

- The same property net operating income change represents the PNOI increase or decrease for the same operating properties owned during the entire current period and prior year reporting period. PNOI from same properties increased 3.1% for the three months ended September 30, 2017, and increased 2.5% for the nine months ended September 30, 2017, compared to the same periods in 2016.

- Same property average occupancy represents the average month-end percentage of leased square footage for which the lease term has commenced as compared to the total leasable square footage for the same operating properties owned during the entire current period and prior year reporting period. Same property average occupancy was 96.4% for the three months ended September 30, 2017, compared to 96.1% for the same period of 2016. Same property average occupancy for the nine months ended September 30, 2017, was 96.6% compared to 96.3% for the same period of 2016.

- Occupancy is the percentage of leased square footage for which the lease term has commenced as compared to the total leasable square footage as of the close of the reporting period. Occupancy at September 30, 2017, was 95.6%. Quarter-end occupancy ranged from 94.9% to 96.8% over the previous four quarters ended September 30, 2016 to June 30, 2017.

- Rental rate change represents the rental rate increase or decrease on new and renewal leases compared to the prior leases on the same space. Rental rate increases on new and renewal leases (4.6% of total square footage) averaged 20.9% for the third quarter of 2017. For the nine months ended September 30, 2017, rental rate increases on new and renewal leases (17.6% of total square footage) averaged 17.1%.

- Lease termination fee income is included in Income from real estate operations. Lease termination fee income for the three and nine months ended September 30, 2017 was $65,000 and $198,000 respectively, compared to $316,000 and $754,000 for the same periods of 2016.

- Bad debt expense is included in Expenses from real estate operations. The Company recorded bad debt expense of $134,000 and $332,000 for the three and nine months ended September 30, 2017, respectively, compared to $306,000 and $764,000 for the same periods of 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Real Estate Properties

The Company applied the principles of Accounting Standards Codification (ASC) 805, Business Combinations, when accounting for purchase of real estate until its adoption of Accounting Standards Update (ASU) 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which was effective October 1, 2016. ASU 2017-01 provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the new guidance, companies are required to utilize an initial screening test to determine whether substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set is not a business. EastGroup has determined that some of its real estate property acquisitions may be considered to be acquisitions of groups of similar identifiable assets; therefore, the acquisitions are not considered to be acquisitions of a business.

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

The purchase price is also allocated among the following categories of intangible assets: the above or below market component of in-place leases, the value of in-place leases, and the value of customer relationships. The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate reflecting the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above and below market leases are included in Other assets and Other liabilities, respectively, on the Consolidated Balance Sheets and are amortized to rental income over the remaining terms of the respective leases. The total amount of intangible assets is further allocated to in-place lease values and customer relationship values based upon management's assessment of their respective values. These intangible assets are included in Other assets on the Consolidated Balance Sheets and are amortized over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

For properties under development and properties acquired in the development stage, costs associated with development (i.e., land, construction costs, interest expense, property taxes and other costs associated with development) are aggregated into the total capitalized costs of the property. Included in these costs are management's estimates for the portions of internal costs (primarily personnel costs) deemed related to such development activities. The internal costs are allocated to specific development properties based on development activity.

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

Valuation of Receivables

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

the event the allowance for doubtful accounts is insufficient for an account that is subsequently written off, additional bad debt expense would be recognized as a current period charge on the Consolidated Statements of Income and Comprehensive Income.

Tax Status

EastGroup, a Maryland corporation, has qualified as a real estate investment trust under Sections 856-860 of the Internal Revenue Code and intends to continue to qualify as such. To maintain its status as a REIT, the Company is required to distribute at least 90% of its ordinary taxable income to its stockholders. If the Company has a capital gain, it has the option of (i) deferring recognition of the capital gain through a tax-deferred exchange, (ii) declaring and paying a capital gain dividend on any recognized net capital gain resulting in no corporate level tax, or (iii) retaining and paying corporate income tax on its net long-term capital gain, with shareholders reporting their proportional share of the undistributed long-term capital gain and receiving a credit or refund of their share of the tax paid by the Company. The Company distributed all of its 2016 taxable income to its stockholders and expects to distribute all of its taxable income in 2017. Accordingly, no significant provision for income taxes was necessary in 2016, nor is any significant income tax provision expected to be necessary for 2017.

FINANCIAL CONDITION

EastGroup's assets were $1,893,993,000 at September 30, 2017, an increase of $68,229,000 from December 31, 2016. Liabilities decreased $16,079,000 to $1,167,819,000, and equity increased $84,308,000 to $726,174,000 during the same period. The following paragraphs explain these changes in detail.

Assets

Real Estate Properties
Real estate properties increased $192,944,000 during the nine months ended September 30, 2017, primarily due to the transfer of twelve properties from Development (as detailed under Development below), the purchase of the operating properties detailed below and capital improvements at the Company's properties. These increases were partially offset by the operating property sales discussed below.

REAL ESTATE PROPERTIES ACQUIRED IN 2017	Location	Size	Date Acquired	Cost [(1)]
		(Square feet)		(In thousands)
Shiloh 400	Atlanta, GA	238,000	02/07/2017	$ 18,712
Broadmoor Commerce Park	Atlanta, GA	84,000	04/26/2017	5,363
Southpark Corporate Center 5-7	Austin, TX	99,000	05/12/2017	9,590
Total Acquisitions		421,000		$ 33,665

(1) Total cost of the properties acquired was $36,475,000, of which $33,665,000 was allocated to Real estate properties as indicated above. The Company allocated $5,700,000 of the total purchase price to land using third party land valuations for the Atlanta and Austin markets. The market values are considered to be Level 3 inputs as defined by ASC 820, Fair Value Measurement (see Note 16 in the Notes to Consolidated Financial Statements for additional information on ASC 820). Intangibles associated with the purchases of real estate were allocated as follows: $3,016,000 to in-place lease intangibles and $114,000 to above market leases (both included in Other assets on the Consolidated Balance Sheets), and $320,000 to below market leases (included in Other liabilities on the Consolidated Balance Sheets).

During the nine months ended September 30, 2017, the Company made capital improvements of $19,203,000 on existing and acquired properties (included in the Capital Expenditures table under Results of Operations). Also, the Company incurred costs of $8,600,000 on development properties subsequent to transfer to Real estate properties; the Company records these expenditures as development costs on the Consolidated Statements of Cash Flows.

During the nine months ended September 30, 2017, the Company sold Stemmons Circle in Dallas and Techway Southwest I-IV in Houston. The properties (514,000 square feet combined) were sold for $38.0 million and the Company recognized gains on the sales of $21.9 million.

Development
EastGroup's investment in development at September 30, 2017 consisted of properties in lease-up and under construction of $87,007,000 and prospective development (primarily land) of $117,190,000. The Company's total investment in development at September 30, 2017 was $204,197,000 compared to $293,908,000 at December 31, 2016. Total capital invested for development during the first nine months of 2017 was $80,462,000, which primarily consisted of costs of $55,578,000 and $14,819,000 as detailed in the Development Activity table below and costs of $8,600,000 on development properties subsequent to transfer to Real estate properties. The capitalized costs incurred on development properties subsequent to transfer to Real estate properties include capital improvements at the

properties and do not include other capitalized costs associated with development (i.e., interest expense, property taxes and internal personnel costs).

The Company capitalized internal development costs of $1,056,000 and $3,650,000 for the three and nine months ended September 30, 2017, respectively, compared to $867,000 and $2,660,000 in the same periods of 2016.

During the nine months ended September 30, 2017, EastGroup purchased 77 acres of development land in San Antonio, Austin, Atlanta and Charlotte for $11,729,000. Costs associated with these land acquisitions are included in the Development Activity table below. These increases were offset by the sale of five acres of land for $850,000 and the transfer of twelve development projects to Real estate properties during the first nine months of 2017 with a total investment of $160,108,000 as of the date of transfer.

DEVELOPMENT ACTIVITY		Costs Transferred in 2017 [1]	Costs Incurred For the Nine Months Ended 9/30/2017	Cumulative as of 9/30/2017	Estimated Total Costs	Anticipated Building Conversion Date
		(In thousands)				
LEASE-UP	Building Size (Square feet)					
Alamo Ridge IV, San Antonio, TX	97,000	$—	1,073	6,018	6,600	03/18
Eisenhauer Point 3, San Antonio, TX	71,000	—	2,107	4,855	5,900	06/18
SunCoast 4, Ft. Myers, FL	93,000	—	2,390	8,645	9,100	06/18
Weston, Ft. Lauderdale, FL [2]	134,000	—	1,009	15,290	15,900	07/18
Steele Creek VII, Charlotte, NC	120,000	2,393	5,195	7,588	8,600	09/18
Total Lease-Up	515,000	2,393	11,774	42,396	46,100	
UNDER CONSTRUCTION						
Country Club V, Tucson, AZ	300,000	—	4,098	7,393	24,200	03/18
Horizon XII, Orlando, FL	140,000	3,825	5,163	8,988	12,100	11/18
Oak Creek VII, Tampa, FL	116,000	2,153	3,725	5,878	7,200	11/18
Kyrene 202 III, IV & V, Phoenix, AZ	166,000	2,280	4,248	6,528	13,800	01/19
CreekView 121 3 & 4, Dallas, TX	158,000	3,701	3,458	7,159	14,200	02/19
Eisenhauer Point 5, San Antonio, TX	98,000	1,253	2,515	3,768	7,500	03/19
Eisenhauer Point 6, San Antonio, TX	85,000	878	1,750	2,628	5,200	03/19
Horizon X, Orlando, FL	104,000	2,101	168	2,269	8,000	04/19
Total Under Construction	1,167,000	16,191	25,125	44,611	92,200	
PROSPECTIVE DEVELOPMENT (PRIMARILY LAND)	Estimated Building Size (Square feet)					
Phoenix, AZ	96,000	(2,280)	120	1,733		
Tucson, AZ [3]	—	—	(417)	—		
Ft. Myers, FL	570,000	—	361	14,004		
Miami, FL	850,000	—	2,511	29,755		
Orlando, FL	418,000	(5,926)	771	10,994		
Tampa, FL	32,000	(2,153)	57	1,545		
Atlanta, GA	107,000	—	675	675		
Jackson, MS	28,000	—	—	706		
Charlotte, NC	748,000	(2,393)	1,357	8,267		
Austin, TX	340,000	—	5,825	5,825		
Dallas, TX	491,000	(3,701)	518	9,159		
El Paso, TX	251,000	—	—	2,444		
Houston, TX [4]	1,476,000	—	(227)	21,147		
San Antonio, TX	965,000	(2,131)	7,128	10,936		
Total Prospective Development	6,372,000	(18,584)	18,679	117,190		
	8,054,000	$—	55,578	204,197		

DEVELOPMENTS COMPLETED AND TRANSFERRED TO REAL ESTATE PROPERTIES DURING 2017	Building Size (Square feet)					Building Conversion Date
Eisenhauer Point 1 & 2, San Antonio, TX	201,000	$—	19	15,795		01/17
South 35th Avenue, Phoenix, AZ [5]	125,000	—	—	1,664		01/17
Alamo Ridge III, San Antonio, TX	135,000	—	28	10,587		02/17
Parc North 1-4, Dallas, TX [6]	446,000	—	132	32,252		02/17
Madison IV & V, Tampa, FL	145,000	—	549	8,074		03/17
Jones Corporate Park, Las Vegas, NV [7]	416,000	—	275	39,815		04/17
Ten Sky Harbor, Phoenix, AZ	64,000	—	100	5,365		04/17
Steele Creek VI, Charlotte, NC	137,000	—	519	7,525		04/17
Horizon V, Orlando, FL	141,000	—	4,814	9,249		05/17
Horizon VII, Orlando, FL	109,000	—	1,375	8,266		06/17
Eisenhauer Point 4, San Antonio, TX	85,000	—	2,544	5,197		07/17
CreekView 121 1 & 2, Dallas, TX	193,000	—	4,464	16,319		08/17
Total Transferred to Real Estate Properties	2,197,000	$—	14,819	160,108	(8)	

See next page for Development Activity table footnotes.

(1) Represents costs transferred from Prospective Development (primarily land) to Under Construction during the period. Negative amounts represent land inventory costs transferred to Under Construction.
(2) This project was acquired by EastGroup on 11/1/16 and underwent redevelopment.
(3) Negative amount represents land inventory costs transferred to Real Estate Properties for storage yard and parking lot expansion.
(4) Negative amount represents West Road retention ponds and infrastructure conveyed to West Harris County Municipal Utility District.
(5) This property was redeveloped from a manufacturing building to a multi-tenant distribution building.
(6) This project, which was recently developed by the seller, was acquired by EastGroup on 7/8/16 during the lease-up phase.
(7) This project, which was recently developed by the seller, was acquired by EastGroup on 11/15/16 during the lease-up phase.
(8) Represents cumulative costs at the date of transfer.

Accumulated Depreciation
Accumulated depreciation on real estate and development properties increased $38,316,000 during the first nine months of 2017 due primarily to depreciation expense, offset by the sale of 514,000 square feet of operating properties during the period.

Other Assets
Other assets increased $3,669,000 during the first nine months of 2017. A summary of Other assets follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Leasing costs (principally commissions)	$70,322	65,521
Accumulated amortization of leasing costs	(26,266)	(26,340)
Leasing costs (principally commissions), net of accumulated amortization	44,056	39,181
Straight-line rents receivable	30,739	28,369
Allowance for doubtful accounts on straight-line rents receivable	(158)	(76)
Straight-line rents receivable, net of allowance for doubtful accounts	30,581	28,293
Accounts receivable	3,907	6,824
Allowance for doubtful accounts on accounts receivable	(566)	(809)
Accounts receivable, net of allowance for doubtful accounts	3,341	6,015
Acquired in-place lease intangibles	21,814	21,231
Accumulated amortization of acquired in-place lease intangibles	(9,664)	(8,642)
Acquired in-place lease intangibles, net of accumulated amortization	12,150	12,589
Acquired above market lease intangibles	1,549	1,594
Accumulated amortization of acquired above market lease intangibles	(738)	(736)
Acquired above market lease intangibles, net of accumulated amortization	811	858
Mortgage loans receivable	4,656	4,752
Interest rate swap assets	4,183	4,546
Goodwill	990	990
Prepaid expenses and other assets	7,731	7,606

Total Other assets	$108,499	104,830

Liabilities
Unsecured bank credit facilities increased $25,653,000 during the nine months ended September 30, 2017, mainly due to proceeds of $281,342,000 exceeding repayments of $255,988,000 and the amortization of debt issuance costs during the period. The Company’s credit facilities are described in greater detail under Liquidity and Capital Resources.

Unsecured debt increased $340,000 during the nine months ended September 30, 2017, primarily due to the amortization of debt issuance costs.

Secured debt decreased $55,327,000 during the nine months ended September 30, 2017. The decrease resulted from the repayment of one mortgage loan and with a balance of $45,069,000, regularly scheduled principal payments of $10,409,000 and amortization of premiums on Secured debt, offset by the amortization of debt issuance costs during the period.

Accounts payable and accrued expenses increased $14,129,000 during the first nine months of 2017. A summary of the Company's Accounts payable and accrued expenses follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Property taxes payable	$31,408	14,186
Development costs payable	11,876	9,844
Property capital expenditures payable	3,924	2,304
Interest payable	4,329	3,822
Dividends payable on unvested restricted stock	1,237	1,530
Book overdraft [1]	7,565	14,452
Other payables and accrued expenses	6,491	6,563
Total Accounts payable and accrued expenses	$66,830	52,701

[1] Represents unfunded outstanding checks for which the bank has not advanced cash to the Company.

Other liabilities decreased $874,000 during the nine months ended September 30, 2017. A summary of the Company's Other liabilities follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Security deposits	$16,361	14,782
Prepaid rent and other deferred income	8,702	9,795
Acquired below-market lease intangibles	4,071	4,012
Accumulated amortization of below-market lease intangibles	(1,968)	(1,662)
Acquired below-market lease intangibles, net of accumulated amortization	2,103	2,350
Interest rate swap liabilities	1,552	2,578
Prepaid tenant improvement reimbursements	256	343
Other liabilities	16	16
Total Other liabilities	$28,990	29,864

Equity

Additional paid-in capital increased $82,274,000 during the nine months ended September 30, 2017, primarily due to the issuance of common stock under the Company's continuous common equity program (as discussed in Liquidity and Capital Resources) and stock-based compensation (as discussed in Note 15 in the Notes to Consolidated Financial Statements). EastGroup issued 1,037,605 shares of common stock under its continuous common equity program with net proceeds to the Company of $78,956,000.

For the nine months ended September 30, 2017, Distributions in excess of earnings decreased $1,263,000 as a result of Net Income Attributable to EastGroup Properties, Inc. Common Stockholders of $65,593,000 exceeding dividends on common stock of $64,330,000.

Accumulated other comprehensive income increased $650,000 during the nine months ended September 30, 2017. The increase resulted from the change in fair value of the Company's interest rate swaps (cash flow hedges) which are further discussed in Note 13 in the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS
(Comments are for the three and nine months ended September 30, 2017, compared to the three and nine months ended September 30, 2016.)

Net Income Attributable to EastGroup Properties, Inc. Common Stockholders for the three and nine months ended September 30, 2017, was $15,884,000 ($.46 per basic and diluted share) and $65,593,000 ($1.94 per basic and $1.93 per diluted share), respectively, compared to $14,661,000 ($.45 per basic and diluted share) and $80,285,000 ($2.47 per basic and diluted share) for the same periods in 2016.

PNOI for the three months ended September 30, 2017, increased by $4,015,000, or 9.0%, compared to the same period in 2016. PNOI increased $2,483,000 from newly developed and redeveloped properties, $1,342,000 from same property operations and $917,000 from 2016 and 2017 acquisitions; PNOI decreased $658,000 from operating properties sold in 2016 and 2017. Lease termination fee income was $65,000 and $316,000 for the three months ended September 30, 2017 and 2016, respectively. The Company recorded bad debt expense of $134,000 and $306,000 during the three months ended September 30, 2017 and 2016, respectively. Straight-lining of rent increased Income from real estate operations by $1,235,000 and $697,000 for the three months ended September 30, 2017 and 2016, respectively.

PNOI for the nine months ended September 30, 2017, increased by $10,968,000, or 8.3%, compared to the same period in 2016. PNOI increased $7,503,000 from newly developed and redeveloped properties, $3,157,000 from same property operations and $2,628,000 from 2016 and 2017 acquisitions; PNOI decreased $2,157,000 from operating properties sold in 2016 and 2017. Lease termination fee income was $198,000 and $754,000 for the nine months ended September 30, 2017 and 2016, respectively. The Company recorded bad debt expense of $332,000 and $764,000 during the nine months ended September 30, 2017 and 2016, respectively. Straight-lining of rent increased Income from real estate operations by $2,674,000 and $1,921,000 for the nine months ended September 30, 2017 and 2016, respectively.

EastGroup signed 35 leases with free rent concessions on 845,000 square feet during the three months ended September 30, 2017, with total free rent concessions of $1,387,000 over the lives of the leases. During the same period of 2016, the Company signed 29 leases with free rent concessions on 1,153,000 square feet with total free rent concessions of $1,657,000 over the lives of the leases. Free rent concessions during this period in 2016 included a 99 month, 404,000 square foot lease in Orlando with three months of free rent negotiated into the lease. In addition, free rent concessions during the third quarter of 2016 included free rent on leases assumed with the Flagler and Parc North acquisitions. Excluding the Orlando lease and the leases on properties acquired during the quarter, the Company signed leases with free rent concessions on 507,000 square feet with total free rent concessions of $711,000 over the lives of the leases.

During the nine months ended September 30, 2017, EastGroup signed 112 leases with free rent concessions on 3,179,000 square feet with total free rent concessions of $4,484,000 over the lives of the leases. During the same period of 2016, EastGroup signed 112 leases with free rent concessions on 3,251,000 square feet with total free rent concessions of $4,290,000 over the lives of the leases.

Property expense to revenue ratios, defined as Expenses from real estate operations as a percentage of Income from real estate operations, were 29.3% for both the three and nine months ended September 30, 2017, respectively compared to 29.4% and 29.0% for the same periods in 2016. The Company’s percentage of leased square footage was 97.4% at September 30, 2017, compared to 97.3% at September 30, 2016. Occupancy at September 30, 2017 was 95.6% compared to 96.3% at September 30, 2016.

Same property average occupancy represents the average month-end percentage of leased square footage for which the lease term has commenced as compared to the total leasable square footage for the same operating properties owned during the entire current period and prior year reporting period. Same property average occupancy for the three and nine months ended September 30, 2017, was 96.4% and 96.6%, respectively, compared to 96.1% and 96.3% for the same periods of 2016.

The same property average rental rate calculated in accordance with GAAP represents the average annual rental rates of leases in place for the same operating properties owned during the entire current period and prior year reporting period. The same property average rental rate was $5.83 and $5.77 per square foot for the three and nine months ended September 30, 2017, compared to $5.52 and $5.48 per square foot for the same periods of 2016.

Interest expense decreased $137,000 and $673,000 for the three and nine months ended September 30, 2017, compared to the same periods in 2016. The following table presents the components of Interest expense for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,			Nine M[illegible] Septe[illegible]
	2017	2016	Increase (Decrease)	2017
	(In thousands)			
VARIABLE RATE INTEREST EXPENSE				
Unsecured bank credit facilities interest - variable rate (excluding amortization of facility fees and debt issuance costs)	$591	228	363	1,681
Amortization of facility fees - unsecured bank credit facilities	169	169	—	501
Amortization of debt issuance costs - unsecured bank credit facilities	113	113	—	339
Total variable rate interest expense	873	510	363	2,521
FIXED RATE INTEREST EXPENSE				
Unsecured bank credit facilities interest - fixed rate [(1)] (excluding amortization of facility fees and debt issuance costs)	407	208	199	1,208
Unsecured debt interest [(1)] (excluding amortization of debt issuance costs)	5,606	4,899	707	16,72[illegible]
Secured debt interest (excluding amortization of debt issuance costs)	2,904	4,158	(1,254)	9,592
Amortization of debt issuance costs - unsecured debt	119	336	(217)	358
Amortization of debt issuance costs - secured debt	79	114	(35)	247
Total fixed rate interest expense	9,115	9,715	(600)	28,12[illegible]
Total interest	9,988	10,225	(237)	30,64[illegible]
Less capitalized interest	(1,284)	(1,384)	100	(4,24[illegible]
TOTAL INTEREST EXPENSE	$8,704	8,841	(137)	26,40[illegible]

(1) Includes interest on the Company's unsecured bank credit facilities and unsecured debt with fixed interest rates per the debt agreements or effectively fixed interest rates due to interest rate swaps, as discussed in Note 13 in the Notes to Consolidated Financial Statements.

The Company's variable rate interest expense increased by $363,000 and $681,000 for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016. The Company's average unsecured bank credit facilities borrowings and weighted average variable interest rates during both periods are shown in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
	(In thousands, except rates of interest)					
Average borrowings on unsecured bank credit facilities - variable rate	$104,928	59,981	44,947	112,632	92,248	20,384
Weighted average variable interest rates (excluding amortization of facility fees and debt issuance costs)	2.24 %	1.52 %		2.00 %	1.45 %	

The Company's fixed rate interest expense decreased by $600,000 and $849,000 for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016. The changes resulting from the fixed rate unsecured bank credit facilities, unsecured debt and secured debt activity are described below.

Secured debt interest decreased by $1,254,000 and $3,902,000 during the three and nine month periods ended September 30, 2017, respectively, as compared to the same periods in 2016 as a result of debt repayments and regularly scheduled principal payments. Regularly scheduled principal payments on secured debt were $10,409,000 during the nine months ended September 30, 2017. During the year ended December 31, 2016, regularly scheduled principal payments on secured debt were $17,037,000. The details of the secured debt repaid in 2016 and 2017 are shown in the following table:

SECURED DEBT REPAID IN 2016 AND 2017	Interest Rate	Date Repaid	Payoff Amount (In thousands)
Huntwood and Wiegman I	5.68%	08/05/2016	$ 24,543
Alamo Downs, Arion 1-15 & 17, Rampart I-IV, Santan 10 I and World Houston 16	5.97%	09/06/2016	51,194
Weighted Average/Total Amount for 2016	5.88%		$ 75,737
Arion 16, Broadway VI, Chino, East University I & II, Northpark I-IV, Santan 10 II, 55th Avenue and World Houston 1 & 2, 21 & 23	5.57%	08/07/2017	45,069
Weighted Average/Total Amount for 2016 and 2017	5.76%		$ 120,806

EastGroup did not obtain any new secured debt during 2016 or during the first nine months of 2017.

The decreases in secured debt interest expense were partially offset by increases in interest expense from fixed rate unsecured bank credit facilities and unsecured debt. The Company's interest expense from fixed rate unsecured bank credit facilities increased by $199,000 and $1,000,000 during the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016. In August 2016, EastGroup repaid (with no penalty) an $80 million unsecured term loan with an effectively fixed interest rate of 2.770% and an original maturity date of August 15, 2018. On the same day, the Company borrowed $80 million through its $300 million unsecured bank credit facility; the maturity date for the credit facility is July 30, 2019. The Company re-designated the interest rate swap that was previously applied to the $80 million unsecured term loan to the $80 million unsecured bank credit facility borrowing. The $80 million unsecured bank credit facility draw has an effectively fixed interest rate of 2.020% through the interest rate swap's maturity date of August 15, 2018.

The Company's interest expense from unsecured debt increased $707,000 and $2,338,000 during the three and nine months ended September 30, 2017, respectively, compared to the same periods of 2016 as a result of the Company's unsecured debt activity described below. EastGroup did not obtain any new unsecured debt in the first nine months of 2017. The details of the unsecured debt obtained in 2016 are shown in the following table:

NEW UNSECURED DEBT IN 2016	Effective Interest Rate	Date Obtained	Maturity Date	Amount (In thousands)
$65 Million Unsecured Term Loan (1)	2.863%	04/01/2016	04/01/2023	$ 65,000
$40 Million Unsecured Term Loan (2)	2.335%	07/29/2016	07/30/2021	40,000
$60 Million Senior Unsecured Notes	3.480%	12/15/2016	12/15/2024	60,000
$40 Million Senior Unsecured Notes	3.750%	12/15/2016	12/15/2026	40,000
Weighted Average/Total Amount for 2016	3.114%			$ 205,000

(1) The interest rate on this unsecured term loan is comprised of LIBOR plus 165 basis points subject to a pricing grid for changes in the Company's coverage ratings. The Company entered into an interest rate swap to convert the loan's LIBOR rate to a fixed interest rate, providing the Company a weighted average effective interest rate on the term loan of 2.863% as of September 30, 2017. See Note 13 in the Notes to Consolidated Financial Statements for additional information on the interest rate swaps.

(2) The interest rate on this unsecured term loan is comprised of LIBOR plus 110 basis points subject to a pricing grid for changes in the Company's coverage ratings. The Company entered into an interest rate swap to convert the loan's LIBOR rate to a fixed interest rate, providing the Company a weighted average effective interest rate on the term loan of 2.335% as of September 30, 2017. See Note 13 in the Notes to Consolidated Financial Statements for additional information on the interest rate swaps.

Interest costs during the period of construction of real estate properties are capitalized and offset against interest expense. Capitalized interest decreased $100,000 for the three months and increased $505,000 for the nine months ended September 30, 2017, as compared to the same periods of 2016. The variances are due to changes in development spending and borrowing rates.

Depreciation and amortization expense increased $1,650,000 and $4,345,000 for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016 primarily due to the operating properties acquired by the Company in 2016 and 2017 and the properties transferred from Development in 2016 and 2017, partially offset by operating properties sold in 2016 and 2017.

Gain on sales of real estate investments, which includes gains on the sales of operating properties, decreased $20,458,000 for the nine months ended September 30, 2017, respectively, as compared to the same period in 2016. There were no sales during the three months ended September 30, 2017 and 2016. The following paragraphs explain the changes in detail.

The Company did not sell any operating properties during the first or third quarters of 2017. During the second quarter of 2017, EastGroup sold the following operating properties in separate transactions: Stemmons Circle in Dallas and Techway Southwest I-IV in Houston. The properties contain a combined 514,000 square feet and were sold for $38,031,000; EastGroup recognized gains on the sales of $21,855,000.

During the first quarter of 2016, EastGroup sold the following operating properties in separate transactions: Northwest Point Distribution and Service Centers in Houston and North Stemmons III in Dallas. The properties contain a combined 292,000 square feet and were sold for $18,850,000. EastGroup recognized gains on the sales of $11,332,000.

During the second quarter of 2016, the Company sold the following operating properties in separate transactions: America Plaza, Lockwood Distribution Center, and West Loop Distribution Center 1 & 2 in Houston; North Stemmons II in Dallas; two of its four Interstate Commons Distribution Center buildings in Phoenix; and Castilian Research Center in Santa Barbara, California. The properties contain a combined 872,000 square feet and were sold for $55,210,000. EastGroup recognized gains on the sales of $30,981,000.

During the third quarter of 2016, the Company did not sell any operating properties.

Real Estate Improvements

Real Estate Improvements for EastGroup's operating properties for the three and nine months ended September 30, 2017 and 2016 were as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Estimated Useful Life	2017	2016	2017	2016
		(In thousands)			
Upgrade on Acquisitions	40 yrs	$98	65	157	352
Tenant Improvements:					
New Tenants	Lease Life	2,906	3,470	8,189	7,379
Renewal Tenants	Lease Life	1,002	671	2,732	2,008
Other:					
Building Improvements	5-40 yrs	688	1,451	2,132	3,928
Roofs	5-15 yrs	1,209	680	3,421	2,512
Parking Lots	3-5 yrs	903	768	1,639	1,047
Other	5 yrs	696	273	933	606
Total Real Estate Improvements (1)		$7,502	7,378	19,203	17,832

(1) Reconciliation of Total Real Estate Improvements to Real estate improvements on the Consolidated Statements of Cash Flows:

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Total Real Estate Improvements	$19,203	17,832

Change in Real Estate Property Payables	(825)	(241)
Real Estate Improvements on the Consolidated Statements of Cash Flows	$18,378	17,591

Capitalized Leasing Costs
The Company’s leasing costs (principally commissions) are capitalized and included in Other assets. The costs are amortized over the terms of the associated leases and are included in Depreciation and amortization expense. Capitalized leasing costs for the three and nine months ended September 30, 2017 and 2016 were as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Estimated Useful Life	2017	2016	2017	2016
		(In thousands)			
Development	Lease Life	$1,196	803	3,624	2,659
New Tenants	Lease Life	1,489	1,425	5,264	4,447
Renewal Tenants	Lease Life	829	1,491	3,926	3,710
Total Capitalized Leasing Costs		$3,514	3,719	12,814	10,816
Amortization of Leasing Costs		$2,587	2,450	7,576	7,281

Real Estate Sold and Held for Sale/Discontinued Operations
The Company considers a real estate property to be held for sale when it meets the criteria established under ASC 360, Property, Plant and Equipment, including when it is probable that the property will be sold within a year. Real estate properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale.

In accordance with FASB ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, the Company would report a disposal of a component of an entity or a group of components of an entity in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component or group of components meets the criteria to be classified as held for sale or when the component or group of components is disposed of by sale or other than by sale. In addition, the Company would provide additional disclosures about both discontinued operations and the disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements. EastGroup performs an analysis of properties sold to determine whether the sales qualify for discontinued operations presentation.

The Company did not classify any properties as held for sale as of September 30, 2017 and December 31, 2016.

The Company does not consider its sales in 2016 and the first nine months of 2017 to be disposals of a component of an entity or a group of components of an entity representing a strategic shift that has (or will have) a major effect on the entity's operations and financial results.

During the first nine months of 2017, the Company sold Stemmons Circle and Techway Southwest I-IV. The properties, which contain 514,000 square feet located in Dallas and Houston, were sold for $38.0 million and the Comany recognized net gains on the sales of $21.9 million. The Company also sold 5 acres of land in Dallas for $850,000 and recognized a loss of $40,000.

During 2016, EastGroup sold the following operating properties: Northwest Point Distribution and Service Centers, North Stemmons II and III, America Plaza, Lockwood Distribution Center, West Loop Distribution Center 1 & 2, two of its four Interstate Commons Distribution Center buildings, Castilian Research Center and Memphis I. The

properties, which contain 1,256,000 square feet and are located in Houston, Dallas, Phoenix, Santa Barbara and Memphis, were sold for $75.7 million and the Company recognized net gains on the sales of $42.2 million. The Company also sold 25 acres of land in Dallas, Orlando and Houston for $5.4 million and recognized gains on sales of $733,000.

The gains and losses on the sales of land are included in Other, and the gains and losses on the sales of operating properties are included in Gain on sales of real estate investments. See Note 7 in the Notes to Consolidated Financial Statements for more information related to discontinued operations and gains and losses on sales of real estate investments.

RECENT ACCOUNTING PRONOUNCEMENTS

EastGroup has evaluated all ASUs recently released by the FASB through the date the financial statements were issued and determined that the following ASUs apply to the Company.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The FASB issued further guidance in ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, that provides clarifying guidance in certain narrow areas and adds some practical expedients. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The effective date of ASU 2014-09 was extended by one year by ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The new standard is effective for the Company on January 1, 2018, and the Company plans to use the modified retrospective approach upon adoption. The Company has made significant progress in evaluating the effect of ASU 2014-09 on its consolidated financial statements and related disclosures beginning with the Form 10-Q for the period ending March 31, 2018. The Company has completed its inventory of its sources of revenue and does not believe there will be a material financial statement impact or that its pattern of revenue recognition will be materially impacted by the adoption of ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,which requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized costs on the balance sheet. EastGroup plans to adopt ASU 2016-01 effective January 1, 2018. The Company does not anticipate the adoption of ASU 2016-01 will have a material impact on the Company's financial condition or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company is a lessee on a limited number of leases, including office and ground leases, and while the adoption of ASU 2016-02 will impact the Company's accounting for office and ground leases, the Company anticipates the impact will not be material to its overall financial condition and results of operations. Lessor accounting is largely unchanged under ASU 2016-02. The Company's primary revenue is rental income; as such, the Company is a lessor on a significant number of leases. The Company is continuing to evaluate the potential impacts of the ASU and believes it will continue to account for its leases in substantially the same manner. The most significant changes for the Company related to lessor accounting include bifurcating its revenue into lease and non-lease components and the new standard's narrow definition of initial direct costs for leases. The new definition will result in certain costs (primarily legal costs related to lease negotiations) being expensed rather than capitalized upon adoption of the new standard. Public business entities are required to apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. EastGroup plans to adopt ASU 2016-02 effective January 1, 2019. The Company is continuing the process of evaluating and quantifying the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures beginning with the Form 10-Q for the period ending March 31, 2019.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU is intended to improve the accounting for share-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of

the accounting for share-based payment awards are simplified with the ASU, including income tax consequences, classification of awards as equity or liabilities and classification on the Consolidated Statements of Cash Flows. ASU 2016-09 is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those fiscal years; early adoption is permitted. EastGroup adopted ASU 2016-09 effective January 1, 2017. As a result, the Company elected to reverse compensation cost of any forfeited awards when they occur and will continue to classify the cash flows resulting from remitting cash to the tax authorities for the payment of taxes on the vesting of share-based payment awards as a financing activity on the Consolidated Statements of Cash Flows. In addition, upon vesting of share-based payments, the Company will withhold up to the maximum individual statutory tax rate and classify the entire award as equity. The adoption of ASU 2016-09 did not have a material impact on the Company's financial condition or results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses certain cash flow issues, including how debt prepayments or debt extinguishment costs and distributions received from equity method investees are presented. ASU 2016-15 is effective for public business entities for annual

periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, and the Company has adopted ASU 2016-15 effective January 1, 2017. The adoption of ASU 2016-15 did not have a material impact on the Company's financial condition or results of operations.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU is intended to provide a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the new guidance, companies are required to utilize an initial screening test to determine whether substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set is not a business. The Company has determined that some of its real estate property acquisitions may be considered to be acquisitions of groups of similar identifiable assets; therefore, the acquisitions are not considered to be acquisitions of a business. EastGroup adopted ASU 2017-01 for transactions beginning on October 1, 2016. As a result, the Company has capitalized acquisition costs related to its fourth quarter 2016 and first quarter 2017 acquisitions as they were determined not to be acquisitions of a business.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the measurement of goodwill impairment by eliminating the requirement of performing a hypothetical purchase price allocation to measure goodwill impairment. The Company adopted ASU 2017-04 effective January 1, 2017, and is applying the new guidance for goodwill impairment tests with measurement dates after January 1, 2017. The adoption of ASU 2017-04 did not have a material impact on the Company's financial condition or results of operations.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies what constitutes a modification of a share-based payment award. The ASU is intended to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. ASU 2017-09 is effective for public entities for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company plans to adopt ASU 2017-09 on January 1, 2018, and it does not anticipate that the adoption of ASU 2017-09 will have a material impact on its financial condition or results of operations, as the Company does not expect to have any modifications to share-based payment awards. However, if the Company does have a modification to an award in the future, it will follow the guidance in ASU 2017-09.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU is intended to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition method is a modified retrospective approach that will require the Company to recognize the cumulative effect of initially applying the ASU as an adjustment to Accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year the entity adopts the ASU. The primary provision in the ASU that will require an adjustment to beginning retained earnings is the change in timing and income statement presentation for ineffectiveness related to cash flow and net investment hedges. As a result of the transition guidance in the ASU, cumulative ineffectiveness that has previously been recognized on cash flow and net investment hedges that are still outstanding and designated as of the date of adoption will be adjusted and removed from beginning retained earnings and placed in Accumulated other comprehensive income. ASU 2017-12 is effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted; however, the Company plans to adopt ASU 2017-12 on January 1, 2019. While the Company continues to assess all potential impacts of ASU 2017-12, it does not expect the adoption to have a material impact on the Company's financial condition or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $122,706,000 for the nine months ended September 30, 2017. The primary other sources of cash were borrowings on unsecured bank credit facilities, proceeds from common stock

offerings and proceeds from the sales of real estate investments and non-operating real estate. The Company distributed $64,623,000 in common stock dividends during the nine months ended September 30, 2017. Other primary uses of cash were for repayments on unsecured bank credit facilities and secured debt, the construction and development of properties, purchases of real estate and capital improvements at various properties.

Total debt at September 30, 2017 and December 31, 2016 is detailed below. The Company's unsecured bank credit facilities and unsecured debt instruments have certain restrictive covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage, and the Company was in compliance with all of its debt covenants at September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016
	(In thousands)	
Unsecured bank credit facilities - variable rate, carrying amount	$137,374	112,020
Unsecured bank credit facilities - fixed rate, carrying amount [(1)]	80,000	80,000
Unamortized debt issuance costs	(731)	(1,030)
Unsecured bank credit facilities	216,643	190,990
Unsecured debt - fixed rate, carrying amount [(1)]	655,000	655,000
Unamortized debt issuance costs	(1,822)	(2,162)
Unsecured debt	653,178	652,838
Secured debt - fixed rate, carrying amount [(1)]	203,093	258,594
Unamortized debt issuance costs	(915)	(1,089)
Secured debt	202,178	257,505
Total debt	$1,071,999	1,101,333

(1) These loans have a fixed interest rate or an effectively fixed interest rate due to interest rate swaps.

EastGroup has a $300 million unsecured revolving credit facility with a group of nine banks that matures in July 2019. The credit facility contains options for a one-year extension (at the Company's election) and a $150 million expansion (with agreement by all parties). The interest rate on each tranche is usually reset on a monthly basis and as of September 30, 2017, was LIBOR plus 100 basis points with an annual facility fee of 20 basis points. The margin and facility fee are subject to changes in the Company's credit ratings. The Company has designated an interest rate swap to an $80 million unsecured bank credit facility draw that effectively fixes the interest rate on the $80 million draw to 2.020% through the interest rate swap's maturity date of August 15, 2018. As of September 30, 2017, EastGroup had an additional $121,000,000 of variable rate borrowings on this unsecured bank credit facility with a weighted average interest rate of 2.235%.

The Company also has a $35 million unsecured revolving credit facility that matures in July 2019. This credit facility automatically extends for one year if the extension option in the $300 million revolving credit facility is exercised. The interest rate is reset on a daily basis and as of September 30, 2017, was LIBOR plus 100 basis points with an annual facility fee of 20 basis points. The margin and facility fee are subject to changes in the Company's credit ratings. At September 30, 2017, the interest rate was 2.232% on a balance of $16,374,000.

As market conditions permit, EastGroup issues equity and/or employs fixed-rate debt, including variable-rate debt that has been swapped to an effectively fixed rate through the use of interest rate swaps, to replace the short-term bank borrowings. The Company believes its current operating cash flow and unsecured bank credit facilities provide the capacity to fund the operations of the Company. The Company also believes it can obtain debt financing and issue common and/or preferred equity. For future debt issuances, the Company intends to issue primarily unsecured fixed-rate debt, including variable-rate debt that has been swapped to an effectively fixed rate through the use of interest rate swaps. The Company may also access the public debt market in the future as a means to raise capital.

In August, EastGroup repaid (with no penalty) a mortgage loan with a balance of $45.1 million, an interest rate of 5.57% and an original maturity date of September 5, 2017. The loan was collateralized by 1.4 million square feet of operating properties.

In September, the Company executed a commitment letter for $60 million of senior unsecured private placement notes with an insurance company. The notes, which are expected to close in mid-December, have a seven-year term and a fixed interest rate of 3.46% with semi-annual interest payments. The notes will not be and have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements.

On March 6, 2017, EastGroup filed a prospectus supplement pursuant to which the Company may issue and sell up to 10,000,000 shares of its common stock from time to time. The Company previously sold an aggregate of 2,228,203 shares of common stock under the original sales agency financing agreements pursuant to a prospectus supplement dated February 14, 2014. During the nine months ended September 30, 2017, EastGroup issued and sold 1,037,605 shares of common stock under its continuous equity program at an average price of $77.10 per share with gross proceeds to the Company of $80,000,000. The Company incurred

offering-related costs of $1,044,000 during the nine months, resulting in net proceeds to the Company of $78,956,000. As of October 23, 2017, the Company has 6,734,192 shares of common stock remaining to sell under the program.

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

Contractual Obligations
EastGroup’s fixed, non-cancelable obligations as of December 31, 2016, did not materially change during the nine months ended September 30, 2017, except for the changes in Unsecured bank credit facilities and Secured debt discussed above.

INFLATION AND OTHER ECONOMIC CONSIDERATIONS

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to interest rate changes primarily as a result of its unsecured bank credit facilities and long-term debt maturities. This debt is used to maintain liquidity and fund capital expenditures and expansion of the Company’s real estate investment portfolio and operations. The Company’s objective for interest rate risk management is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. The Company has two variable rate unsecured bank credit facilities as discussed under Liquidity and Capital Resources. As market conditions permit, EastGroup issues equity and/or employs fixed-rate debt, including variable-rate debt that has been swapped to an effectively fixed rate through the use of interest rate swaps, to replace the short-term bank borrowings. The Company's interest rate swaps are discussed in Note 13 in the Notes to Consolidated Financial Statements. The table below presents the principal payments due and weighted average interest rates, which include the impact of interest rate swaps, for both the fixed-rate and variable-rate debt as of September 30, 2017.

	October – December 2017	2018	2019	2020	2021	Thereafter	Total	Fair Value

Unsecured bank credit facilities - variable rate (in thousands)	$ —	—	137,374 (1)	—	—	—	137,374	137,380 (2)
Weighted average interest rate	—	—	2.23 % (3)	—	—	—	2.23 %	
Unsecured bank credit facilities - fixed rate (in thousands)	$ —	—	80,000	—	—	—	80,000	80,002 (4)
Weighted average interest rate	—	—	2.02 %	—	—	—	2.02 %	
Unsecured debt - fixed rate (in thousands)	$ —	50,000	75,000	105,000	40,000	385,000	655,000	644,834 (4)
Weighted average interest rate	—	3.91 %	2.85 %	3.77 %	2.34 %	3.47 %	3.41 %	
Secured debt - fixed rate (in thousands)	$ 2,736	11,316	55,569	9,096	89,563	34,813	203,093	210,880 (4)
Weighted average interest rate	5.20 %	5.21 %	7.01 %	4.43 %	4.55 %	4.08 %	5.18 %	

(1) The variable-rate unsecured bank credit facilities mature in July 2019 and as of September 30, 2017, have balances of $121,000,000 on the $300 million unsecured bank credit facility and $16,374,000 on the $35 million unsecured bank credit facility.

(2) The fair value of the Company's variable rate debt is estimated by discounting expected cash flows at current market rates, excluding the effects of debt issuance costs.

(3) Represents the weighted average interest rate for the Company's variable rate unsecured bank credit facilities as of September 30, 2017.

(4) The fair value of the Company's fixed-rate debt, including variable-rate debt that has been swapped to an effectively fixed rate through the use of interest rate swaps, is estimated by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers, excluding the effects of debt issuance costs.

As the table above incorporates only those exposures that existed as of September 30, 2017, it does not consider those exposures or positions that could arise after that date. If the weighted average interest rate on the variable rate unsecured bank credit facilities, as shown above, changes by 10% or approximately 22 basis points, interest expense and cash flows would increase or decrease by approximately $306,000 annually. This does not include variable-rate debt that has been effectively fixed through the use of interest rate swaps.

FORWARD-LOOKING STATEMENTS

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

ITEM 4. CONTROLS AND PROCEDURES.

(i) Disclosure Controls and Procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

(ii) Changes in Internal Control Over Financial Reporting.

There was no change in the Company's internal control over financial reporting during the Company's third fiscal quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION.

ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors disclosed in EastGroup's Form 10-K for the year ended December 31, 2016, except to the extent factual information disclosed elsewhere in this Form 10-Q relates to such risk factors. For a full description of these risk factors, please refer to "Item 1A. Risk Factors" in the 2016 Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 6. EXHIBITS.

(a) Form 10-Q Exhibits:

(31)	Rule 13a-14(a)/15d-14(a) Certifications (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)	
	(a)	Marshall A. Loeb, Chief Executive Officer
	(b)	Brent W. Wood, Chief Financial Officer
(32)	Section 1350 Certifications (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)	
	(a)	Marshall A. Loeb, Chief Executive Officer
	(b)	Brent W. Wood, Chief Financial Officer
(101)	The following materials from EastGroup Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) consolidated balance sheets, (ii) consolidated statements of income and comprehensive income, (iii) consolidated statement of changes in equity, (iv) consolidated statements of cash flows, and (v) the notes to the consolidated financial statements.	

SIGNATURES

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

Date: October 23, 2017

EASTGROUP PROPERTIES, INC.

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

/s/ BRENT W. WOOD
Brent W. Wood
Executive Vice President, Chief Financial Officer and Treasurer