EASTGROUP PROPERTIES INC
Form 10-Q
October 22, 2018

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, 2018 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.)

400 W PARKWAY PLACE SUITE 100 RIDGELAND, MISSISSIPPI	39157
(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 19, 2018 was 36,040,767.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES

FORM 10-Q

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

	September 30, 2018	December 31, 2017
ASSETS		
Real estate properties	$ 2,511,646	2,336,734
Development and value-add properties	244,761	242,014
	2,756,407	2,578,748
Less accumulated depreciation	(796,037)	(749,601)
	1,960,370	1,829,147
Unconsolidated investment	7,686	8,029
Cash	257	16
Other assets	120,852	116,029
TOTAL ASSETS	$ 2,089,165	1,953,221
LIABILITIES AND EQUITY		
LIABILITIES		
Unsecured bank credit facilities	$ 169,261	195,709
Unsecured debt	723,300	713,061
Secured debt	191,292	199,512
Accounts payable and accrued expenses	105,869	64,967
Other liabilities	29,512	28,842
Total Liabilities	1,219,234	1,202,091
EQUITY		
Stockholders' Equity:		
Common shares; $.0001 par value; 70,000,000 shares authorized; 36,040,155 shares issued and outstanding at September 30, 2018 and 34,758,167 at December 31, 2017	4	3
Excess shares; $.0001 par value; 30,000,000 shares authorized; no shares issued	—	—
Additional paid-in capital	1,176,034	1,061,153
Distributions in excess of earnings	(318,410)	(317,032)
Accumulated other comprehensive income	10,693	5,348
Total Stockholders' Equity	868,321	749,472
Noncontrolling interest in joint ventures	1,610	1,658
Total Equity	869,931	751,130
TOTAL LIABILITIES AND EQUITY	$ 2,089,165	1,953,221

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,	
	2018	2017	2018	2017
REVENUES				
Income from real estate operations	$75,306	68,712	221,146	202,704
Other revenue	20	34	1,268	90
	75,326	68,746	222,414	202,794
EXPENSES				
Expenses from real estate operations	21,718	20,109	63,847	59,360
Depreciation and amortization	22,970	21,011	67,463	62,101
General and administrative	3,060	3,205	10,263	11,586
	47,748	44,325	141,573	133,047
OPERATING INCOME	27,578	24,421	80,841	69,747
OTHER INCOME (EXPENSE)				
Interest expense	(8,804)	(8,704)	(26,253)	(26,405)
Gain on sales of real estate investments	4,051	—	14,273	21,855
Other	216	255	1,192	725
NET INCOME	23,041	15,972	70,053	65,922
Net income attributable to noncontrolling interest in joint ventures	(31)	(88)	(103)	(329)
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	23,010	15,884	69,950	65,593
Other comprehensive income - cash flow hedges	553	224	5,345	650
TOTAL COMPREHENSIVE INCOME	$23,563	16,108	75,295	66,243
BASIC PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Net income attributable to common stockholders	$0.64	0.46	1.99	1.94
Weighted average shares outstanding	35,716	34,215	35,204	33,857
DILUTED PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Net income attributable to common stockholders	$0.64	0.46	1.98	1.93
Weighted average shares outstanding	35,798	34,290	35,265	33,905

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, 2017	$ 3	1,061,153	(317,032)	5,348	1,658	751,130
Net income	—	—	69,950	—	103	70,053
Net unrealized change in fair value of cash flow hedges	—	—	—	5,345	—	5,345
Common dividends declared – $2.00 per share	—	—	(71,328)	—	—	(71,328)
Stock-based compensation, net of forfeitures	—	4,503	—	—	—	4,503
Issuance of 1,245,885 shares of common stock, common stock offering, net of expenses	1	112,324	—	—	—	112,325
Issuance of 1,232 shares of common stock, dividend reinvestment plan	—	109	—	—	—	109
Withheld 23,824 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock	—	(2,055)	—	—	—	(2,055)
Distributions to noncontrolling interest	—	—	—	—	(151)	(151)
BALANCE, SEPTEMBER 30, 2018	$ 4	1,176,034	(318,410)	10,693	1,610	869,931

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,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$70,053	65,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,463	62,101
Stock-based compensation expense	4,033	4,266
Net gain on sales of real estate investments and non-operating real estate	(14,359)	(21,815)
Gain on casualties and involuntary conversion	(1,150)	—
Changes in operating assets and liabilities:		
Accrued income and other assets	628	881
Accounts payable, accrued expenses and prepaid rent	13,997	10,586
Other	1,330	765
NET CASH PROVIDED BY OPERATING ACTIVITIES	141,995	122,706
INVESTING ACTIVITIES		
Development and value-add properties	(118,489)	(80,462)
Purchases of real estate properties	(52,934)	(36,739)
Real estate improvements	(26,779)	(18,783)
Net proceeds from sales of real estate investments and non-operating real estate	24,508	39,934
Proceeds from casualties and involuntary conversion	1,483	—
Repayments on mortgage loans receivable	1,977	96
Changes in accrued development costs	1,896	2,032
Changes in other assets and other liabilities	(9,804)	(10,835)
NET CASH USED IN INVESTING ACTIVITIES	(178,142)	(104,757)
FINANCING ACTIVITIES		
Proceeds from unsecured bank credit facilities	311,641	281,342
Repayments on unsecured bank credit facilities	(336,789)	(255,988)
Proceeds from unsecured debt	60,000	—
Repayments on unsecured debt	(50,000)	—
Repayments on secured debt	(8,410)	(55,478)
Debt issuance costs	(1,857)	(129)
	(45,449)	(64,623)

Distributions paid to stockholders (not including dividends accrued)		
Proceeds from common stock offerings	112,325	78,956
Proceeds from dividend reinvestment plan	166	170
Other	(5,239)	(2,711)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	36,388	(18,461)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	241	(512)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16	522
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$257	10
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amount capitalized of $4,545 and $4,242 for 2018 and 2017, respectively	$23,112	24,978

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements of EastGroup Properties, Inc. ("EastGroup" or "the Company") have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements contained in the 2017 annual report on Form 10-K and the notes thereto. Certain reclassifications have been made in the 2017 consolidated financial statements to conform to the 2018 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. During the fourth quarter of 2017, EastGroup closed the acquisition of the 20% noncontrolling interest in two of the four University Business Center buildings; the Company now owns 100% of University Business Center 125 and 175. As of December 31, 2017 and September 30, 2018, EastGroup had an 80% controlling interest in University Business Center 120 and 130.

The Company records 100% of the assets, liabilities, revenues and expenses of the buildings held in joint ventures with the noncontrolling interests provided for in accordance with the joint venture agreements.

The equity method of accounting is used for the Company's 50% undivided tenant-in-common interest in Industry Distribution Center II. All significant intercompany transactions and accounts have been eliminated in consolidation.

(3) USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, 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. As of September 30, 2018 and

December 31, 2017, 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 $18,960,000 and $55,785,000 for the three and nine months ended September 30, 2018 and $17,323,000 and $51,070,000 for the same periods in 2017.

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

The Company's Real estate properties and Development and value-add properties at September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Real estate properties:		
Land	$376,658	345,424
Buildings and building improvements	1,703,237	1,587,130
Tenant and other improvements	431,751	404,180
Development and value-add properties [1]	244,761	242,014
	2,756,407	2,578,748
Less accumulated depreciation	(796,037)	(749,601)
	$1,960,370	1,829,147

(1) Value-add properties are defined as properties that are either acquired but not stabilized or can be converted to a higher and better use. Acquired properties meeting either of the following two conditions are considered value-add properties: (1) Less than 75% occupied as of the acquisition date (or will be less than 75% occupied within one year of acquisition date based on near term lease roll), or (2) 20% or greater of the acquisition cost will be spent to redevelop the property.

During 2016, a hail storm caused damage to two of EastGroup's properties which were covered by insurance for all losses, subject to the Company's deductibles. The recoveries received for damages were in excess of the sum of the incurred losses for clean-up costs and the net book value written off for the damaged property. After all contingencies relating to the casualties were resolved, the Company recorded casualty gains of approximately $1.15 million during the second quarter of 2018, which is included in Other revenue on the Consolidated Statements of Income and Comprehensive Income.

(5) DEVELOPMENT

For properties under development and value-add 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. Effective January 1, 2018, the Company began transferring properties from the development program to Real estate properties at the earlier of 90% occupancy or one year after completion of the shell construction (formerly, the Company transferred at the earlier of 80% occupancy or one year after completion of the shell construction). This change did not materially impact the comparability of the Company's financial statements. Upon transfer, capitalization of development costs, including interest expense, property taxes and internal personnel costs, ceases 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.

The FASB Codification provides a framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the 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 determined that its real estate property acquisitions in 2017 and the first nine months of 2018 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 capitalized acquisition costs related to its 2017 and 2018 acquisitions.

The FASB Codification also provides guidance on how to properly determine the allocation of the purchase price among the individual components of both the tangible and intangible assets based on their respective fair values. Goodwill 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 $1,157,000 and $3,202,000 for the three and nine months ended September 30, 2018 and $1,101,000 and $3,455,000 for the same periods in 2017. Amortization of above and below market leases increased rental income by $217,000 and $477,000 for the three and nine months ended September 30, 2018 and $129,000 and $406,000 for the same periods in 2017.

During the first nine months of 2018, the Company acquired the following operating properties: Gwinnett 316 in Atlanta; Eucalyptus Distribution Center in Chino (Los Angeles); and Allen Station I & II in Dallas. The Company also acquired one value-add property, Siempre Viva Distribution Center in San Diego. At the time of acquisition, Siempre Viva was classified in the lease-up phase. The total cost for the properties acquired by the Company was $66,868,000, of which $50,461,000 was allocated to Real estate properties and $13,934,000 was allocated to Development and value-add properties. EastGroup allocated $22,461,000 of the total purchase price to land using third party land valuations for the Atlanta, Dallas, San Diego and Chino (Los Angeles) 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: $4,070,000 to in-place lease intangibles and $21,000 to above market leases, and $1,618,000 to below market leases.

During the year ended December 31, 2017, the Company acquired the following operating properties: Shiloh 400, Broadmoor Commerce Park and Hurricane Shoals 1 & 2 in Atlanta and Southpark Corporate Center 5-7 in Austin. The Company also acquired one value-add property in the development stage, Progress Center 1 & 2 in Atlanta. At the time of acquisition, Progress Center 1 & 2 was classified in the lease-up phase. The total cost for the properties acquired by the Company was $65,243,000, of which $51,539,000 was allocated to Real estate properties and $10,312,000 was allocated to Development and value-add properties. EastGroup allocated $11,281,000 of the total purchase price to land using third party land valuations for the Atlanta and Austin markets. Intangibles associated with the purchase of real estate were allocated as follows: $3,662,000 to in-place lease intangibles, $115,000 to above market leases, and $385,000 to below market leases.

The Company periodically reviews the recoverability of goodwill (at least annually) and the recoverability of other intangibles (on a quarterly basis) for possible impairment. In management’s opinion, no impairment of goodwill or other intangibles existed at September 30, 2018 and December 31, 2017.

(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, 2018 and December 31, 2017.

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 does not consider its sales in 2017 and the first nine months of 2018 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 World Houston 18, 56 Commerce Park and 35th Avenue Distribution Center during the nine months ended September 30, 2018. The properties, which contain 339,000 square feet and are located in Houston, Tampa and Phoenix, were sold for $22.9 million and the Company recognized gains on the sales of $14.3 million. The sale of 35th Avenue Distribution Center closed during the three months ended September 30, 2018, resulting in a gain on sale of $4.1 million recognized in the third quarter.

During the nine months ended September 30, 2018, the Company also sold 11 acres of land in Houston for $2.6 million and recognized a gain of $86,000 in the first quarter of 2018.

During the year 2017, EastGroup sold two operating properties, Stemmons Circle and Techway Southwest I-IV. Both properties were sold during the three months ended June 30, 2017. The properties, which contain 514,000 square feet and are located in Houston and Dallas, were sold for $38.0 million and the Company recognized gains on the sales of $21.9 million during the second quarter of 2017.

During the year 2017, the Company also sold 19 acres of land in Dallas and El Paso for $3.8 million and recognized net gains of $293,000 (A net loss of $40,000 was recorded in the first quarter of 2017; there were no land sales during the second or third quarters of 2017).

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.

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

(8) OTHER ASSETS

A summary of the Company's Other assets follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Leasing costs (principally commissions)	$76,587	72,722
Accumulated amortization of leasing costs	(28,742)	(27,973)
Leasing costs (principally commissions), net of accumulated amortization	47,845	44,749
Straight-line rents receivable	35,276	31,609
Allowance for doubtful accounts on straight-line rents receivable	(134)	(48)
Straight-line rents receivable, net of allowance for doubtful accounts	35,142	31,561
Accounts receivable	5,026	6,004
Allowance for doubtful accounts on accounts receivable	(515)	(577)
Accounts receivable, net of allowance for doubtful accounts	4,511	5,427
Acquired in-place lease intangibles	21,752	20,690
Accumulated amortization of acquired in-place lease intangibles	(9,168)	(8,974)
Acquired in-place lease intangibles, net of accumulated amortization	12,584	11,716
Acquired above market lease intangibles	1,465	1,550
Accumulated amortization of acquired above market lease intangibles	(852)	(794)
Acquired above market lease intangibles, net of accumulated amortization	613	756
Mortgage loans receivable	2,604	4,581
Interest rate swap assets	10,693	6,034
Goodwill	990	990
Prepaid expenses and other assets	5,870	10,215
Total Other assets	$120,852	116,029

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 Unsecured bank credit facilities, Unsecured debt and Secured debt on the Consolidated Balance Sheets.

	September 30, 2018	December 31, 2017
	(In thousands)	
Unsecured bank credit facilities - variable rate, carrying amount	$171,191	116,339
Unsecured bank credit facilities - fixed rate, carrying amount [1] [2]	—	80,000
Unamortized debt issuance costs	(1,930)	(630)
Unsecured bank credit facilities	169,261	195,709
Unsecured debt - fixed rate, carrying amount [1]	725,000	715,000
Unamortized debt issuance costs	(1,700)	(1,939)
Unsecured debt	723,300	713,061
Secured debt - fixed rate, carrying amount [1]	191,923	200,354
Unamortized debt issuance costs	(631)	(842)
Secured debt	191,292	199,512
Total debt	$1,083,853	1,108,282

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

(2) The Company had designated an interest rate swap to an $80 million unsecured bank credit facility draw that effectively fixed the interest rate on the $80 million draw to 2.020% through the interest rate swap's maturity date. This swap matured on August 15, 2018, and the $80 million draw has reverted to the variable interest rate associated with the Company's unsecured bank credit facilities.

Until June 14, 2018, EastGroup had $300 million and $35 million unsecured bank credit facilities with margins over LIBOR of 100 basis points, facility fees of 20 basis points and maturity dates of July 30, 2019. The Company amended and restated these credit facilities on June 14, 2018, expanding the capacity to $350 million and $45 million, as detailed below.

The $350 million unsecured bank credit facility is with a group of nine banks and has a maturity date of July 30, 2022. The credit facility contains options for two six-month extensions (at the Company's election) and a $150 million accordion (with agreement by all parties). The interest rate on each tranche is usually reset on a monthly basis and as of September 30, 2018, 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 had designated an interest rate swap to an $80 million unsecured bank credit facility draw that effectively fixed the interest rate on the $80 million draw to 2.020% through the interest rate swap's maturity date. This swap matured on August 15, 2018, and the $80 million draw has reverted to the variable interest rate associated with the Company's unsecured bank credit facilities. As of September 30, 2018, the Company had $155,000,000 of variable rate borrowings on this unsecured bank credit facility with a weighted average interest rate of 3.218%. The Company has a standby letter of credit of $674,000 pledged on this facility.

The Company's $45 million unsecured bank credit facility has a maturity date of July 30, 2022, or such later date as designated by the bank; the Company also has two six-month extensions available if the extension options in the $350

million facility are exercised. The interest rate is reset on a daily basis and as of September 30, 2018, 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. As of September 30, 2018, the interest rate was 3.261% on a balance of $16,191,000.

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Scheduled principal payments on long-term debt, including Unsecured debt and Secured debt (not including Unsecured bank credit facilities), as of September 30, 2018, are as follows:

Years Ending December 31,	(In thousands)
Remainder of 2018	$ 2,882
2019	130,570
2020	114,096
2021	129,563
2022	107,769
2023 and beyond	432,043
Total	$ 916,923

(10) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	September 30, 2018	December 31, 2017
	(In thousands)	
Property taxes payable	$ 34,557	12,081
Development costs payable	11,595	9,699
Real estate improvements and capitalized leasing costs payable	5,847	3,957
Interest payable	5,901	3,744
Dividends payable	27,244	1,365
Book overdraft [(1)]	14,206	20,902
Other payables and accrued expenses	6,519	13,219
Total Accounts payable and accrued expenses	$ 105,869	64,967

(1) Represents checks written before the end of the period which have not cleared the bank; therefore, the bank has not yet advanced cash to the Company. When the checks clear the bank, they will be funded through the Company's working cash line of credit.

(11) OTHER LIABILITIES

A summary of the Company's Other liabilities follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Security deposits	$ 17,986	16,668
Prepaid rent and other deferred income	8,391	9,352
Acquired below-market lease intangibles	5,753	4,135
Accumulated amortization of below-market lease intangibles	(2,788)	(2,147)
Acquired below-market lease intangibles, net of accumulated amortization	2,965	1,988
Interest rate swap liabilities	—	695

Prepaid tenant improvement reimbursements	105	124
Other liabilities	65	15
Total Other liabilities	$29,512	28,842

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(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 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,	
	2018	2017	2018	2017
	(In thousands)			
ACCUMULATED OTHER COMPREHENSIVE INCOME:				
Balance at beginning of period	$10,140	2,421	5,348	1,995
Change in fair value of interest rate swaps - cash flow hedges	553	224	5,345	650
Balance at end of period	$10,693	2,645	10,693	2,645

(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, 2018, the Company had six 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 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 related to derivatives will be reclassified to Interest expense as interest payments are made or received on the Company's variable-rate debt. The Company estimates the swap interest receipts will be $2,884,000 over the next twelve months. These receipts approximate the expected cash interest receipts due from counterparties for the swaps. Since the interest payments and receipts 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.

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As of September 30, 2018 and December 31, 2017, 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, 2018	Notional Amount as of December 31, 2017
	(In thousands)	
Interest Rate Swap	—	$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, 2018 and December 31, 2017. See Note 16 for additional information on the fair value of the Company's interest rate swaps.

	Derivatives As of September 30, 2018		Derivatives As of December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)			
Derivatives designated as cash flow hedges:				
Interest rate swap assets	Other assets	$10,693	Other assets	$6,034
Interest rate swap liabilities	Other liabilities	—	Other liabilities	695

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, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS				
Interest Rate Swaps:				
Amount of income (loss) recognized in Other comprehensive income on derivatives	$1,002	(102)	6,236	(996)
Amount of (income) loss reclassified from Accumulated other comprehensive income into Interest expense	(449)	326	(891)	1,646

See Note 12 for additional information on the Company's Accumulated other comprehensive income 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, 2018, the fair value of derivatives in an asset position related to these agreements was $10,693,000. As of September 30, 2018, 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 $10,798,000.

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(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.

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,	
	2018	2017	2018	2017
	(In thousands)			
BASIC EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$23,010	15,884	69,950	65,593
Denominator – weighted average shares outstanding	35,716	34,215	35,204	33,857
DILUTED EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$23,010	15,884	69,950	65,593
Denominator:				
Weighted average shares outstanding	35,716	34,215	35,204	33,857
Unvested restricted stock	82	75	61	48
Total Shares	35,798	34,290	35,265	33,905

(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 $1,574,000 and $3,725,000 for the three and nine months ended September 30, 2018, respectively, of which $365,000 and $824,000 were capitalized as part of the Company's development costs. For the three and nine months ended September 30, 2017, stock-based compensation cost for employees was $1,319,000 and $4,952,000, respectively, of which $308,000 and $1,177,000 were capitalized as part of the Company's development costs.

Stock-based compensation expense for directors was $1,000 and $1,132,000 for the three and nine months ended September 30, 2018, respectively, and $168,000 and $491,000 for the same periods of 2017.

In the second quarter of 2017, the Compensation Committee of the Company's Board of Directors (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 measured the Company's performance for 2017 against bright-line tests established by the Committee on the grant date of May 10, 2017, and determined that 21,097 shares were earned. These shares, which have a grant date fair value of $78.18, vested 20% on the date shares were determined and will vest 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 have been 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. On March 1, 2018, the Committee evaluated the performance of the officers and, in its discretion, awarded 4,554 shares with a grant date fair value of $80.93. These shares vested 20% on the date shares were determined and awarded and will vest 20% per year on each January 1 for the subsequent four years. The Company began recognizing expense for the shares awarded on the grant date of March 1, 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 member companies of the NAREIT industrial index. The first plan measured the bright-line tests over the one-year period ended December 31, 2017. During the first quarter of 2018, the Committee measured 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 determined on the measurement date was 4,257. These shares vested 100% on March 1, 2018, the date the earned shares were 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, vested 25% in the first quarter of 2018 and will vest 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.

In the second quarter of 2018, the Committee approved an equity compensation plan for the Company's executive officers based upon certain annual performance measures for 2018, including FFO per share, same property net operating income change, general and administrative costs, and fixed charge coverage. During the first quarter of 2019, the Committee will measure the Company's performance for 2018 against bright-line tests established by the Committee on the grant date of June 1, 2018. The number of shares that may be earned for the achievement of the annual performance measures could range from zero to 24,690. These shares, which have a grant date fair value of $95.19, 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 June 1, 2018, 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 2018, the Committee approved an equity compensation plan for EastGroup's 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 2019. The number of shares to be issued on the grant date for the achievement of individual goals could range from zero to 6,173. These

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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 2019, and the shares will be expensed on a straight-line basis over the remaining service period.

Also in the second quarter of 2018, the Committee approved a long-term equity compensation plan for the Company's executive officers that includes one component based on total shareholder return and one component based only on continued service as of the vesting dates.

The component of the long-term equity compensation plan based on total shareholder return is subject to bright-line tests that will compare the Company's total shareholder return to the NAREIT Equity Index and to the member companies of the NAREIT industrial index. The plan will measure the bright-line tests over the three-year period ending December 31, 2020. During the first quarter of 2021, 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 June 1, 2018. The number of shares to be earned on the measurement date could range from zero to 27,596. These shares would vest 75% on the date the earned shares are determined in the first quarter of 2021 and 25% on January 1, 2022. On the grant date of June 1, 2018, 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 June 1, 2018. On that date, 7,884 shares were granted to the Company's executive officers subject only to continued service as of the vesting dates. These shares, which have a grant date fair value of $95.19, will vest 25% in the first quarter of 2019 and 25% on January 1 in years 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 2018, 12,425 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 $95.17, will vest 20% on January 1 in years 2019, 2020, 2021, 2022 and 2023. The shares are being expensed on a straight-line basis over the remaining service period.

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 2018, the Company withheld 23,824 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 2018 was $5,149,000.

Award Activity:	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	143,596	$ 70.30	152,926	$ 63.22
Granted [(1)] [(2)]	—	—	50,217	84.09
Forfeited	—	—	—	—
Vested	(71)	88.86	(59,618)	63.80

Unvested at end of period	143,525	$ 70.29	143,525	$ 70.29

(1) Includes shares granted in prior years for which performance conditions have been satisfied and the number of shares have been
determined.
(2) Does not include the restricted shares that may be earned if the performance goals established in 2017 for long-term performance
and in 2018 for annual and long-term performance 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 86,836.

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(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, 2018 and December 31, 2017.

	September 30, 2018		December 31, 2017	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$257	257	16	16
Mortgage loans receivable	2,604	2,531	4,581	4,569
Interest rate swap assets	10,693	10,693	6,034	6,034
Financial Liabilities:				
Unsecured bank credit facilities - variable rate (2)	171,191	171,571	116,339	116,277
Unsecured bank credit facilities - fixed rate (2)	—	—	80,000	80,003
Unsecured debt (2)	725,000	700,706	715,000	703,871
Secured debt (2)	191,92[illegible]	193,304	200,354	206,408
Interest rate swap liabilities	—	—	695	695

(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).
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.

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(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. The new standard was effective for the Company on January 1, 2018, and the Company used the modified retrospective approach upon adoption. The adoption of ASU 2014-09 did not have a material impact on the Company's financial condition or results of operations.

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 adopted ASU 2016-01 effective January 1, 2018. The adoption of ASU 2016-01 did not 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 change for the Company related to lessor accounting includes 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. EastGroup estimates the new definition of initial direct costs will result in an increase of expenses, and therefore a decrease in earnings, of approximately $200,000 on an annual basis. EastGroup plans to elect the practical expedient permitting lessors to make an accounting policy election by class of underlying asset to not separate non-lease components of a contract from the lease component to which they relate when specific criteria are met (the Company believes its leases meet the criteria). 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 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 adopted ASU 2017-09 on January 1, 2018; the adoption of ASU 2017-09 did not have a material impact on its financial condition or results of operations, as the Company has not had 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.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The ASU is intended to improve the effectiveness of fair value measurement disclosures. ASU 2018-13 is effective for all entities for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted; however, the Company plans to adopt ASU 2018-13 on January 1, 2020. EastGroup does not expect the adoption to have a material impact on its financial condition, results of operations or disclosures.

(19) SUBSEQUENT EVENTS

Subsequent to quarter-end, EastGroup closed the acquisition of 29 acres of development land in San Antonio for $3 million. The land is expected to accommodate the future development of four buildings totaling 370,000 square feet; the Company anticipates initiating the first phase of development on this land in 2019.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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”).

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 15,000 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 2018, EastGroup issued 1,245,885 shares of common stock through its continuous common equity program, providing net proceeds to the Company of $112.3 million. Also during the first nine months of 2018, the Company closed $60 million of senior unsecured private placement notes and replaced its $300 million and $35 million unsecured bank credit facilities with new $350 million and $45 million facilities. 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 priority is leasing space. During the nine months ended September 30, 2018, EastGroup executed leases on 5,551,000 square feet (14.3% of EastGroup’s total square footage of 38,806,000). During the first nine months of 2018, average rental rates on new and renewal leases increased by 15.6.%.

Property net operating income (PNOI) excluding income from lease terminations from same properties, defined as operating properties owned during the entire current and prior year reporting periods (January 1, 2017 through September 30, 2018), increased 4.2% for the nine months ended September 30, 2018, as compared to the same period in 2017.

EastGroup's total leased percentage was 97.1% as of September 30, 2018 compared to 97.4% at September 30, 2017. Leases scheduled to expire for the remainder of 2018 were 1.7% of the portfolio on a square foot basis at September 30, 2018, and this percentage was reduced to 1.5% as of October 19, 2018.

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 2018, EastGroup acquired Siempre Viva Distribution Center, a value-add property containing 115,000 square feet in San Diego, for $14 million and 30 acres of development land in Dallas for $5.7 million. During the same

period, the Company began construction of 11 development projects containing 1,558,000 square feet in Miami, Orlando, Ft. Myers, Atlanta, Dallas, Houston, San Antonio and Charlotte. EastGroup also transferred 10 development projects and value-add acquisitions (1,338,000 square feet) in Orlando, Tampa, Ft. Lauderdale, Ft. Myers, Atlanta, San Antonio, Tucson, Phoenix and Charlotte from its development and value-add program to real estate properties with costs of $105.2 million at the date of transfer. As of September 30, 2018, EastGroup’s development program consisted of 20 projects (2,506,000 square feet) located in 11 cities. The projected total investment for the development projects, which were collectively 43% leased as of October 19, 2018, is $220 million, of which $76 million remained to be invested as of September 30, 2018.

Also during the first nine months of 2018, EastGroup acquired 467,000 square feet of operating properties in Atlanta, Dallas and Chino (Los Angeles) for $53 million.

Also in the first nine months of 2018, the Company sold 339,000 square feet of operating properties and 11 acres of land, generating gross proceeds of $25.4 million. EastGroup recognized $14,273,000 in Gain on sales of real estate investments and $86,000 in Gain on sales of non-operating real estate (included in Other on the Consolidated Statements of Income and Comprehensive Income).

Typically, the Company initially funds its development and acquisition programs through its $395 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 June 2018, 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 was calculated as follows for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Income from real estate operations	$75,306	68,712	221,146	202,704
Expenses from real estate operations	(21,718)	(20,109)	(63,847)	(59,360)
Noncontrolling interest in PNOI of consolidated 80% joint ventures	(77)	(145)	(237)	(493)
PNOI from 50% owned unconsolidated investment	217	224	652	673
PROPERTY NET OPERATING INCOME (PNOI)	$53,728	48,682	157,714	143,524

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, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
NET INCOME	$23,041	15,972	70,053	65,922
(Gain) on sales of real estate investments	(4,051)	—	(14,273)	(21,855)
(Gain) loss on sales of non-operating real estate	—	—	(86)	40
(Gain) on sales of other	—	—	(427)	—
Interest income	(32)	(62)	(122)	(185)
Other revenue	(20)	(34)	(1,268)	(90)
Depreciation and amortization	22,970	21,011	67,463	62,101
Company's share of depreciation from unconsolidated investment	33	31	95	93
Interest expense	8,804	8,704	26,253	26,405
General and administrative expense	3,060	3,205	10,263	11,586
Noncontrolling interest in PNOI of consolidated 80% joint ventures	(77)	(145)	(237)	(493)
PROPERTY NET OPERATING INCOME (PNOI)	$53,728	48,682	157,714	143,524

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, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
	$23,010	15,884	69,950	65,593

NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Depreciation and amortization	22,970	21,011	67,463	62,101
Company's share of depreciation from unconsolidated investment	33	31	95	93
Depreciation and amortization from noncontrolling interest	(45)	(56)	(133)	(160)
(Gain) on sales of real estate investments	(4,051)	—	(14,273)	(21,855)
FUNDS FROM OPERATIONS (FFO) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$41,917	36,870	123,102	105,772
Net income attributable to common stockholders per diluted share	$0.64	0.46	1.98	1.93
Funds from operations (FFO) attributable to common stockholders per diluted share	$1.17	1.08	3.49	3.12
Diluted shares for earnings per share and funds from operations	35,798	34,290	35,265	33,905

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The Company analyzes the following performance trends in evaluating the revenues and expenses 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 2018 was $1.17 per share compared with $1.08 per share for the same period of 2017, an increase of 8.3%. For the nine months ended September 30, 2018, FFO was $3.49 per share compared with $3.12 per share for the same period of 2017, an increase of 11.9%.

- For the three months ended September 30, 2018, PNOI increased by $5,046,000, or 10.4%, compared to the same period in 2017. PNOI increased $3,191,000 from newly developed and value-add properties, $1,617,000 from same property operations and $433,000 from 2017 and 2018 acquisitions; PNOI decreased $242,000 from operating properties sold in 2017 and 2018.

For the nine months ended September 30, 2018, PNOI increased by $14,190,000, or 9.9%, compared to the same period in 2017. PNOI increased $8,701,000 from newly developed and value-add properties, $5,688,000 from same property operations and $1,245,000 from 2017 and 2018 acquisitions; PNOI decreased $1,499,000 from operating properties sold in 2017 and 2018.

- The same property net operating income change represents the PNOI increase or decrease for the same operating properties owned during the entire current and prior year reporting periods (January 1, 2017 through September 30, 2018). PNOI, excluding income from lease terminations, from same properties increased 3.6% and 4.2% for the three and nine months ended September 30, 2018, respectively, as compared to the same periods in 2017.

- 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 and prior year reporting periods (January 1, 2017 through September 30, 2018). Same property average occupancy was 96.5% for both the three months ended September 30, 2018 and 2017. Same property average occupancy for the nine months ended September 30, 2018, was 96.9% compared to 96.4% for the same period of 2017.

- 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, 2018, was 95.7%. Quarter-end occupancy ranged from 95.6% to 96.4% over the previous four quarters ended September 30, 2017 to June 30, 2018.

- 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 (4.8% of total square footage) averaged 16.6% for the third quarter of 2018. For the nine months ended September 30, 2018, rental rate increases on new and renewal leases (14.3% of total square footage) averaged 15.6%.

- 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, 2018 was $34,000 and $173,000 respectively, compared to $65,000 and $198,000 for the same periods of 2017.

- Bad debt expense is included in Expenses from real estate operations. The Company recorded net bad debt expense of $196,000 and $282,000 for the three and nine months ended September 30, 2018, compared to $134,000 and $332,000 for the same periods of 2017.

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 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 value-add 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.

FINANCIAL CONDITION
EastGroup's assets were $2,089,165,000 at September 30, 2018, an increase of $135,944,000 from December 31, 2017. Liabilities increased $17,143,000 to $1,219,234,000, and equity increased $118,801,000 to $869,931,000 during the same period. The following paragraphs explain these changes in detail.

Assets

Real Estate Properties
Real estate properties increased $174,912,000 during the nine months ended September 30, 2018, primarily due to the transfer of 10 projects from Development and value-add properties (as detailed under Development and Value-Add Properties 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 2018	Location	Size	Date Acquired	Cost [1]
		(Square feet)		(In thousands)
Gwinnett 316	Atlanta, GA	65,000	04/24/2018	$ 4,147
Eucalyptus Distribution Center	Chino, CA	182,000	06/20/2018	22,890
Allen Station I & II	Dallas, TX	220,000	08/29/2018	23,424
Total Real Estate Property Acquisitions		467,000		$ 50,461

(1) Total cost of the properties acquired was $52,835,000, of which $50,461,000 was allocated to Real estate properties as indicated above. The Company allocated $17,738,000 of the total purchase price to land using third party land valuations for the Atlanta, Dallas and Chino (Los Angeles) 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: $3,944,000 to in-place lease intangibles and $21,000 to above market leases (included in Other assets on the Consolidated Balance Sheets) and $1,591,000 to below market leases (included in Other liabilities on the Consolidated Balance Sheets).

During the nine months ended September 30, 2018, the Company made capital improvements of $28,937,000 on existing and acquired properties (included in the Real Estate Improvements table under Results of Operations). Also, the Company incurred costs of $8,164,000 on development projects 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, 2018, the Company sold World Houston 18 in Houston, 56 Commerce Park in Tampa and 35th Avenue Distribution Center in Phoenix. The properties (339,000 square feet combined) were sold for $22.9 million and the Company recognized gains on the sales of $14.3 million.

Development and Value-Add Properties
EastGroup's investment in Development and value-add properties at September 30, 2018 consisted of projects in lease-up and under construction of $144,199,000 and prospective development (primarily land) of $100,562,000. The Company's total investment in Development and value-add properties at September 30, 2018 was $244,761,000 compared to $242,014,000 at December 31, 2017. Total capital invested for development during the first nine months of 2018 was $118,489,000, which primarily consisted of costs of $93,948,000 and $13,959,000 as detailed in the Development and Value-Add Properties Activity table below and costs of $8,164,000 on projects subsequent to transfer to Real estate properties. The capitalized costs incurred on development projects 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 $1,271,000 and $3,504,000 for the three and nine months ended September 30, 2018, respectively, compared to $1,056,000 and $3,650,000 in the same periods of 2017.

During the nine months ended September 30, 2018, EastGroup acquired one value-add property, Siempre Viva Distribution Center in San Diego. At the time of acquisition, Siempre Viva was classified in the lease-up phase and was occupied by the seller under a short-term lease that expired during the third quarter. EastGroup has successfully re-leased the multi-tenant distribution center, which will be 100% occupied during the first quarter of 2019. The total cost for the property acquired by the Company was $14,033,000, of which $13,934,000 was allocated to Development and value-add properties. EastGroup allocated $4,723,000 of the total purchase price to land using third party land valuations for the San Diego market. 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 were allocated as follows: $126,000 to in-place lease intangibles (included in Other assets on the Consolidated Balance Sheets), and $27,000 to below market leases.

Also during the nine months ended September 30, 2018, the Company acquired 30 acres of development land in Flower Mound (Dallas) for $5,700,000.

During the nine months ended September 30, 2018, EastGroup sold 11 acres of development land in Houston for $2,577,000. The Company also transferred 10 development and value-add properties to Real estate properties during the first nine months of 2018 with a total investment of $105,160,000 as of the date of transfer.

DEVELOPMENT AND VALUE-ADD PROPERTIES ACTIVITY		Costs Transferred in 2018 [1]	Costs Incurred For the Nine Months Ended 9/30/2018	Cumulative as of 9/30/2018	Estimated Total Costs	Anticipated Building Conversion Date
		(In thousands)				
LEASE-UP	Building Size (Square feet)					
Horizon XII, Orlando, FL	140,000	$—	711	11,941	12,500	10/18
Eisenhauer Point 6, San Antonio, TX	85,000	—	1,353	5,403	5,700	11/18
West Road 5, Houston, TX	58,000	1,022	3,513	4,535	5,300	12/18
Eisenhauer Point 5, San Antonio, TX	98,000	—	1,688	7,492	8,000	01/19
Siempre Viva, San Diego, CA [2]	115,000	—	13,934	13,934	14,400	01/19
CreekView 121 3 & 4, Dallas, TX	158,000	—	2,415	12,726	14,800	04/19
Falcon Field, Phoenix, AZ	96,000	—	4,960	7,907	9,000	05/19
Total Lease-Up	750,000	1,022	28,574	63,938	69,700	
UNDER CONSTRUCTION						
Broadmoor 2, Atlanta, GA	111,000	705	5,017	5,722	7,400	10/19
Settlers Crossing 1, Austin, TX	77,000	—	3,997	5,553	7,400	10/19
Settlers Crossing 2, Austin, TX	83,000	—	4,236	5,909	8,400	10/19
Gateway 1, Miami, FL	200,000	9,110	9,041	18,151	25,000	11/19
Horizon XI, Orlando, FL	135,000	3,171	4,188	7,359	10,400	12/19
SunCoast 5, Ft. Myers, FL	81,000	2,704	2,523	5,227	7,700	12/19
Airport Commerce Center 3, Charlotte, NC	96,000	—	1,641	3,374	7,300	01/20
Steele Creek V, Charlotte, NC	54,000	1,366	408	1,774	5,800	01/20
Parc North 5, Dallas, TX	100,000	1,683	3,161	4,844	9,200	02/20
Tri-County Crossing 1 & 2, San Antonio, TX	203,000	2,012	4,275	6,287	14,600	02/20
Eisenhauer Point 7 & 8, San Antonio, TX	336,000	4,916	2,755	7,671	23,600	03/20
Ten West Crossing 8, Houston, TX	132,000	1,947	2,045	3,992	10,900	03/20
Horizon VI, Orlando, FL	148,000	3,418	980	4,398	12,700	04/20
Total Under Construction	1,756,000	31,032	44,267	80,261	150,400	
PROSPECTIVE DEVELOPMENT (PRIMARILY LAND)	Estimated Building Size (Square feet)					
Ft. Myers, FL	488,000	(2,704)	399	11,807		
Miami, FL	650,000	(9,110)	12,288	34,054		
Orlando, FL	214,000	(6,589)	1,064	5,595		
Tampa, FL	32,000	—	—	1,560		
Atlanta, GA	100,000	(705)	131	633		
Jackson, MS	28,000	—	—	706		
Charlotte, NC	600,000	(1,366)	1,083	6,446		
Austin, TX	180,000	—	541	3,561		
Dallas, TX	752,000	(1,683)	7,069	14,982		
Houston, TX [3]	1,123,000	(2,969)	(2,311)	15,910		

San Antonio, TX	548,000	(6),98243	5,308		
Total Prospective Development	4,715,000	(3)2,2015,407	100,562		
	7,221,000	$— 93,948	244,761		
DEVELOPMENT AND VALUE-ADD PROPERTIES TRANSFERRED TO REAL ESTATE PROPERTIES DURING 2018	Building Size (Square feet)				Building Conversion Date
Alamo Ridge IV, San Antonio, TX	97,000	$— 320	7,417		03/18
Oak Creek VII, Tampa, FL	116,000	— 601	6,732		03/18
Weston, Ft. Lauderdale, FL (4)	134,000	— 222	15,742		03/18
Progress Center 1 & 2, Atlanta, GA (5)	132,000	— 143	10,476		04/18
Horizon X, Orlando, FL	104,000	— 3,352	6,902		05/18
SunCoast 4, Ft. Myers, FL	93,000	— 71	9,191		05/18
Country Club V, Tucson, AZ	305,000	— 7,078	21,029		06/18
Eisenhauer Point 3, San Antonio, TX	71,000	— 231	6,390		06/18
Kyrene 202 III, IV & V, Phoenix, AZ	166,000	— 1,146	12,689		09/18
Steele Creek VII, Charlotte, NC	120,000	— 795	8,592		09/18
Total Transferred to Real Estate Properties	1,338,000	$— 13,959	105,160	(6)	

See footnotes for the table on the following page.

(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 value-add project was acquired by EastGroup on 7/12/18.
(3) Negative amount represents land inventory costs transferred to Under Construction and land sold on 3/28/18.
(4) This project was acquired by EastGroup on 11/1/16 and underwent redevelopment.
(5) This project was acquired by EastGroup on 12/12/17 during the lease-up phase.
(6) Represents cumulative costs at the date of transfer.

Accumulated Depreciation

Accumulated depreciation on real estate, development and value-add properties increased $46,436,000 during the first nine months of 2018 due primarily to depreciation expense, offset by the sale of 339,000 square feet of operating properties during the period.

Other Assets

Other assets increased $4,823,000 during the first nine months of 2018. A summary of Other assets follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Leasing costs (principally commissions)	$76,587	72,722
Accumulated amortization of leasing costs	(28,742)	(27,973)
Leasing costs (principally commissions), net of accumulated amortization	47,845	44,749
Straight-line rents receivable	35,276	31,609
Allowance for doubtful accounts on straight-line rents receivable	(134)	(48)
Straight-line rents receivable, net of allowance for doubtful accounts	35,142	31,561
Accounts receivable	5,026	6,004
Allowance for doubtful accounts on accounts receivable	(515)	(577)
Accounts receivable, net of allowance for doubtful accounts	4,511	5,427
Acquired in-place lease intangibles	21,752	20,690
Accumulated amortization of acquired in-place lease intangibles	(9,168)	(8,974)
Acquired in-place lease intangibles, net of accumulated amortization	12,584	11,716
Acquired above market lease intangibles	1,465	1,550
Accumulated amortization of acquired above market lease intangibles	(852)	(794)
Acquired above market lease intangibles, net of accumulated amortization	613	756
Mortgage loans receivable	2,604	4,581
Interest rate swap assets	10,693	6,034
Goodwill	990	990
Prepaid expenses and other assets	5,870	10,215
Total Other assets	$120,852	116,029

Liabilities

Unsecured bank credit facilities decreased $26,448,000 during the nine months ended September 30, 2018, mainly due to repayments of $336,789,000 and new debt issuance costs incurred during the period, partially offset by borrowings

of $311,641,000 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 $10,239,000 during the nine months ended September 30, 2018, primarily due to the closing of $60 million of senior unsecured private placement notes in April 2018 and the amortization of debt issuance costs. These increases were offset by the repayment of a $50 million senior unsecured term loan in June 2018 and new debt issuance costs incurred during the period. The borrowings and repayments on Unsecured debt are described in greater detail under Liquidity and Capital Resources.

Secured debt decreased $8,220,000 during the nine months ended September 30, 2018. The decrease resulted from regularly scheduled principal payments of $8,410,000 and amortization of premiums on Secured debt, offset by the amortization of debt issuance costs during the period.

Accounts payable and accrued expenses increased $40,902,000 during the first nine months of 2018. A summary of the Company's Accounts payable and accrued expenses follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Property taxes payable	$34,557	12,081
Development costs payable	11,595	9,699
Real estate improvements and capitalized leasing costs payable	5,847	3,957
Interest payable	5,901	3,744
Dividends payable	27,244	1,365
Book overdraft [(1)]	14,206	20,902
Other payables and accrued expenses	6,519	13,219
Total Accounts payable and accrued expenses	$105,869	64,967

(1) Represents checks written before the end of the period which have not cleared the bank; therefore, the bank has not yet advanced cash to the Company. When the checks clear the bank, they will be funded through the Company's working cash line of credit.

Other liabilities increased $670,000 during the nine months ended September 30, 2018. A summary of the Company's Other liabilities follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Security deposits	$17,986	16,668
Prepaid rent and other deferred income	8,391	9,352
Acquired below-market lease intangibles	5,753	4,135
Accumulated amortization of below-market lease intangibles	(2,788)	(2,147)
Acquired below-market lease intangibles, net of accumulated amortization	2,965	1,988
Interest rate swap liabilities	—	695
Prepaid tenant improvement reimbursements	105	124
Other liabilities	65	15
Total Other liabilities	$29,512	28,842

Equity

Additional paid-in capital increased $114,881,000 during the nine months ended September 30, 2018, 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 1,245,885 shares of common stock under its continuous common equity program with net proceeds to the Company of $112,325,000, which increased Additional paid-in capital by $112,324,000 and Common shares by $1,000.

For the nine months ended September 30, 2018, Distributions in excess of earnings increased $1,378,000 as a result of dividends on common stock of $71,328,000 exceeding Net Income Attributable to EastGroup Properties, Inc.

Common Stockholders of $69,950,000.

Accumulated other comprehensive income increased $5,345,000 during the nine months ended September 30, 2018. 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, 2018, compared to the three and nine months ended September 30, 2017.)

Net Income Attributable to EastGroup Properties, Inc. Common Stockholders for the three and nine months ended September 30, 2018, was $23,010,000 ($.64 per basic and diluted share) and $69,950,000 ($1.99 per basic and $1.98 per diluted share), respectively, compared to $15,884,000 ($.46 per basic and diluted share) and $65,593,000 ($1.94 per basic and $1.93 per diluted share) for the same periods in 2017.

PNOI for the three months ended September 30, 2018, increased by $5,046,000, or 10.4%, compared to the same period in 2017. PNOI increased $3,191,000 from newly developed and value-add properties, $1,617,000 from same property operations and $433,000 from 2017 and 2018 acquisitions; PNOI decreased $242,000 from operating properties sold in 2017 and 2018. Lease termination fee income was $34,000 and $65,000 for the three months ended September 30, 2018 and 2017, respectively. The Company recorded net bad debt expense of $196,000 and $134,000 during the three months ended September 30, 2018 and 2017, respectively. Straight-lining of rent increased Income from real estate operations by $1,432,000 and $1,235,000 for the three months ended September 30, 2018 and 2017, respectively.

PNOI for the nine months ended September 30, 2018, increased by $14,190,000, or 9.9%, compared to the same period in 2017. PNOI increased $8,701,000 from newly developed and value-add properties, $5,688,000 from same property operations and $1,245,000 from 2017 and 2018 acquisitions; PNOI decreased $1,499,000 from operating properties sold in 2017 and 2018. Lease termination fee income was $173,000 and $198,000 for the nine months ended September 30, 2018 and 2017, respectively. The Company recorded net bad debt expense of $282,000 and $332,000 during the nine months ended September 30, 2018 and 2017, respectively. Straight-lining of rent increased Income from real estate operations by $3,950,000 and $2,674,000 for the nine months ended September 30, 2018 and 2017, respectively.

EastGroup signed 36 leases with free rent concessions on 1,343,000 square feet during the three months ended September 30, 2018, with total free rent concessions of $2,409,000 over the lives of the leases. During the same period of 2017, the Company signed 35 leases with free rent concessions on 845,000 square feet with total free rent concessions of $1,387,000 over the lives of the leases.

During the nine months ended September 30, 2018, EastGroup signed 99 leases with free rent concessions on 2,820,000 square feet with total free rent concessions of $3,991,000 over the lives of the leases. During the same period of 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.

The Company’s percentage of leased square footage was 97.1% at September 30, 2018, compared to 97.4% at September 30, 2017. Occupancy at September 30, 2018 was 95.7% compared to 95.6% at September 30, 2017.

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 and prior year reporting periods (January 1, 2017 through September 30, 2018). Same property average occupancy for the three and nine months ended September 30, 2018, was 96.5% and 96.9%, respectively, compared to 96.5% and 96.4% for the same periods of 2017.

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 and prior year reporting periods (January 1, 2017 through September 30, 2018). The same property average rental rate was $5.99 and $5.96 per square

foot for the three and nine months ended September 30, 2018, compared to $5.80 and $5.75 per square foot for the same periods of 2017.

Interest expense increased $100,000 for the three months and decreased $152,000 for the nine months ended September 30, 2018, compared to the same periods in 2017. The following table presents the components of Interest expense for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,			Nine Mo Septemb
	2018	2017	Increase (Decrease)	2018
	(In thousands)			
VARIABLE RATE INTEREST EXPENSE				
Unsecured bank credit facilities interest - variable rate (excluding amortization of facility fees and debt issuance costs)	$1,028	591	437	2,182
Amortization of facility fees - unsecured bank credit facilities	199	169	30	537
Amortization of debt issuance costs - unsecured bank credit facilities	139	113	26	369
Total variable rate interest expense	1,366	873	493	3,088
FIXED RATE INTEREST EXPENSE				
Unsecured bank credit facilities interest - fixed rate (1) (2) (excluding amortization of facility fees and debt issuance costs)	200	407	(207)	1,001
Unsecured debt interest (1) (excluding amortization of debt issuance costs)	6,078	5,606	472	18,464
Secured debt interest (excluding amortization of debt issuance costs)	2,500	2,904	(404)	7,609
Amortization of debt issuance costs - unsecured debt	133	119	14	425
Amortization of debt issuance costs - secured debt	69	79	(10)	211
Total fixed rate interest expense	8,980	9,115	(135)	27,710
Total interest	10,346	9,988	358	30,798
Less capitalized interest	(1,542)	(1,284)	(258)	(4,545)
TOTAL INTEREST EXPENSE	$8,804	8,704	100	26,253

(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.

(2) The Company had designated an interest rate swap to an $80 million unsecured bank credit facility draw that effectively fixed the interest rate on the $80 million draw to 2.020% through the interest rate swap's maturity date. This swap matured on August 15, 2018, and the $80 million draw has reverted to the variable interest rate associated with the Company's unsecured bank credit facilities.

The Company's variable rate interest expense increased by $493,000 and $567,000 for the three and nine months ended September 30, 2018, as compared to the same periods in 2017. 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,		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
	(In thousands, except rates of interest)					
Average borrowings on unsecured bank credit facilities - variable rate	$131,775	104,928	26,847	101,571	112,632	(11,061)
Weighted average variable interest rates	3.10 %	2.24 %		2.87 %	2.00 %	

(excluding amortization of facility fees and debt
issuance costs)

The Company's fixed rate interest expense decreased by $135,000 and $416,000 for the three and nine months ended September 30, 2018, as compared to the same periods in 2017. 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 $404,000 and $1,983,000 during the three and nine month periods ended September 30, 2018, as compared to the same periods in 2017 as a result of debt repayments and regularly scheduled principal payments. Regularly scheduled principal payments on secured debt were $8,410,000 during the nine months ended September 30, 2018. During the

year ended December 31, 2017, regularly scheduled principal payments on secured debt were $13,139,000. EastGroup did not repay any secured debt during the first nine months of 2018. The details of the secured debt repaid in 2017 are shown in the following table:

SECURED DEBT REPAID IN 2017	Interest Rate	Date Repaid	Payoff Amount
			(In thousands)
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

EastGroup did not obtain any new secured debt during 2017 or during the first nine months of 2018.

Interest expense from fixed rate unsecured bank credit facilities decreased by $207,000 during both the three and nine months ended September 30, 2018, due to the maturity of an interest rate swap designated to an $80 million draw on the Company's unsecured bank credit facilities. See footnote (2) in the interest expense summary table above for additional details.

Interest expense from fixed rate unsecured debt increased by $472,000 and $1,743,000 during the three and nine months ended September 30, 2018, as compared to the same periods of 2017. The increases resulted from the Company's unsecured debt activity described below.

The details of the unsecured debt obtained in 2017 and 2018 are shown in the following table:

NEW UNSECURED DEBT IN 2017 AND 2018	Effective Interest Rate	Date Obtained	Maturity Date	Amount
				(In thousands)
$60 Million Senior Unsecured Notes	3.460%	12/13/2017	12/13/2024	$ 60,000
$60 Million Senior Unsecured Notes	3.930%	04/10/2018	04/10/2028	60,000
Weighted Average/Total Amount for 2017 and 2018	3.695%			$ 120,000

The increase in interest expense from the new unsecured debt was partially offset by the refinancing of two unsecured loans and the repayment of a $50 million unsecured term loan. In December 2017, the Company refinanced a $75 million unsecured term loan, resulting in a 30 basis point reduction in the loan's interest rate. The loan, which has a maturity date of December 20, 2020, now has an effectively fixed interest rate of 3.452%. In February 2018, EastGroup refinanced a $65 million unsecured term loan, resulting in a 55 basis point reduction in the loan's interest rate. The loan, which has a maturity date of April 1, 2023, now has an effectively fixed interest rate of 2.313%. In June 2018, the Company repaid (with no penalty) a $50 million senior unsecured term loan with an effective interest rate of 3.91% and an original maturity date of December 21, 2018.

Interest costs during the period of construction of real estate properties are capitalized and offset against interest expense. Capitalized interest increased $258,000 and $303,000 for the three and nine months ended September 30, 2018, as compared to the same periods of 2017. The increase is due to changes in development spending and borrowing rates.

Depreciation and amortization expense increased $1,959,000 and $5,362,000 for the three and nine months ended September 30, 2018, respectively, as compared to the same periods in 2017 primarily due to the operating properties acquired by the Company in 2017 and 2018 and the properties transferred from the development program in 2017 and 2018, partially offset by operating properties sold in 2017 and 2018.

Gain on sales of real estate investments, which includes gains on the sales of operating properties, increased $4,051,000 for the three months and decreased $7,582,000 for the nine months ended September 30, 2018, respectively, as compared to the same periods in 2017.

During the first quarter of 2018, EastGroup sold the following operating properties in separate transactions: World Houston 18 in Houston and 56 Commerce Park in Tampa. The properties contain a combined 214,000 square feet and were sold for $14,910,000; EastGroup recognized gains on the sales of $10,222,000 during the first quarter of 2018. The Company did not sell any properties during the second quarter of 2018.

During the third quarter of 2018, Eastgroup sold 35th Avenue Distribution Center in Phoenix. The 125,000 square foot property was sold for $7,941,000, and the Company recognized a gain on the sale of $4,051,000 during the third quarter of 2018.

EastGoup did not sell any properties during the first quarter 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 second quarter of 2017. EastGoup did not sell any properties during the third quarter of 2017.

Real Estate Improvements

Real estate improvements for EastGroup's operating properties for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Estimated Useful Life	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
		(In thousands)			
Upgrade on Acquisitions	40 yrs	$135	98	174	157
Tenant Improvements:					
New Tenants	Lease Life	4,262	2,906	10,214	8,189
Renewal Tenants	Lease Life	918	1,002	2,234	2,732
Other:					
Building Improvements	5-40 yrs	3,930	688	6,557	2,132
Roofs	5-15 yrs	2,570	1,209	6,881	3,421
Parking Lots	3-5 yrs	1,137	903	2,112	1,639
Other	5 yrs	27	696	765	933
Total Real Estate Improvements [1]		$12,979	7,502	28,937	19,203

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(In thousands)	
Total Real Estate Improvements	$28,937	19,203
Change in Real Estate Property Payables	(1,316)	