

EASTGROUP PROPERTIES INC
Form 10-K
February 28, 2008

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter: \$1,005,373,000.

The number of shares of common stock, \$.0001 par value, outstanding as of February 27, 2008 was 23,804,206.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS.

Organization

EastGroup Properties, Inc. (the Company or EastGroup) is an equity real estate investment trust (REIT) organized in 1969. The Company has elected to be taxed and intends to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code (the Code), as amended.

Available Information

The Company maintains a website at www.eastgroup.net. The Company posts its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after it electronically files or furnishes such materials to the Securities and Exchange Commission (SEC). In addition, the Company's website includes items related to corporate governance matters, including, among other things, the Company's corporate governance guidelines, charters of various committees of the Board of Directors, and the Company's code of business conduct and ethics applicable to all employees, officers and directors. The Company intends to disclose on its website any amendment to, or waiver of, any provision of this code of business conduct and ethics applicable to the Company's directors and executive officers that would otherwise be required to be disclosed under the rules of the SEC or the New York Stock Exchange. Copies of these reports and corporate governance documents may be obtained, free of charge, from the Company's website. Any shareholder also may obtain copies of these documents, free of charge, by sending a request in writing to: Investor Relations, EastGroup Properties, Inc., 300 One Jackson Place, 188 East Capitol Street, Jackson, MS 39201-2195.

Administration

EastGroup maintains its principal executive office and headquarters in Jackson, Mississippi. The Company also has regional offices in Phoenix, Orlando and Houston and opened a management office in San Antonio in 2008. The Company also has property management offices in Jacksonville, Tampa and Fort Lauderdale. Offices at these locations allow the Company to directly manage all of its Florida, Houston, San Antonio, Arizona and Mississippi properties, which together account for 62% of the Company's total portfolio on a square foot basis. In addition, the Company currently provides property administration (accounting of operations) for its entire portfolio. The regional offices in

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Arizona, Florida and Texas also provide development capability and oversight in those states. As of February 27, 2008, EastGroup had 63 full-time employees and one part-time employee.

Operations

EastGroup is focused on the development, acquisition and operation of industrial properties in major Sunbelt markets throughout the United States with an emphasis in the states of Florida, Texas, Arizona and California. The Company's goal is to maximize shareholder value by being the leading provider of functional, flexible, and quality business distribution space for location sensitive tenants primarily in the 5,000 to 50,000 square foot range. EastGroup's strategy for growth is based on ownership of premier distribution facilities generally clustered near major transportation features in supply constrained submarkets. Over 99% of the Company's revenue is generated from renting real estate.

During 2007, EastGroup expanded its investments through its development and acquisition programs. The Company purchased seven operating properties (1,079,000 square feet in 15 buildings), one property for redevelopment (68,000 square feet) and 102 acres of developable land for a combined cost of \$73.1 million. Also during 2007, EastGroup transferred 14 properties (959,000 square feet) with aggregate costs of \$69.8 million at the date of transfer from development to real estate properties.

EastGroup incurs short-term floating rate bank debt in connection with the acquisition and development of real estate and, as market conditions permit, replaces floating rate debt with equity, including preferred equity, and/or fixed-rate term loans secured by real property. EastGroup also may, in appropriate circumstances, acquire one or more properties in exchange for EastGroup securities.

EastGroup holds its properties as long-term investments, but may determine to sell certain properties that no longer meet its investment criteria. The Company may provide financing in connection with such sales of property if market conditions require. In addition, the Company may provide financing to a partner or co-owner in connection with an acquisition of real estate in certain situations.

Subject to the requirements necessary to maintain our qualifications as a REIT, EastGroup may acquire securities of entities engaged in real estate activities or securitites of other issuers, including for the purpose of exercising control over those entities.

The Company intends to continue to qualify as a REIT under the Code. To maintain its status as a REIT, the Company is required to distribute 90% of its ordinary taxable income to its shareholders. The Company has the option of (i) reinvesting the sales price of properties sold through tax-deferred exchanges, allowing for a deferral of capital gains on the sale, (ii) paying out capital gains to the stockholders with no tax to the Company, or (iii) treating the capital gains as having been distributed to the stockholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the stockholders.

EastGroup has no present intention of acting as an underwriter of offerings of securities of other issuers. The strategies and policies set forth above were determined and are subject to review by EastGroup's Board of Directors, which may change such strategies or policies based upon its evaluation of the state of the real estate market, the performance of EastGroup's assets, capital and credit market conditions, and other relevant factors. EastGroup provides annual reports to its stockholders, which contain financial statements audited by the Company's independent registered public accounting firm.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, an owner of real estate may be liable for the costs of removal or remediation of

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certain hazardous or toxic substances on or in such property. Many such laws impose liability without regard to whether the owner knows of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell or rent such property or to use such property as collateral in its borrowings. EastGroup's properties have been subjected to Phase I Environmental Site Assessments (ESAs) by independent environmental consultants. These reports have not revealed any potential significant environmental liability. Management of EastGroup is not aware of any environmental liability that would have a material adverse effect on EastGroup's business, assets, financial position or results of operations.

ITEM 1A. RISK FACTORS.

In addition to the other information contained or incorporated by reference in this document, readers should carefully consider the following risk factors. Any of these risks or the occurrence of any one or more of the uncertainties described below could have a material adverse effect on the Company's financial condition and the performance of its business. The Company refers to itself as "we" or "our" in the following risk factors.

Real Estate Industry Risks

We face risks associated with local real estate conditions in areas where we own properties. We may be affected adversely by general economic conditions and local real estate conditions. For example, an oversupply of industrial properties in a local area or a decline in the attractiveness of our properties to tenants would have a negative effect on us. Other factors that may affect general economic conditions or local real estate conditions include:

- o population and demographic trends;
- o employment and personal income trends;
- o income tax laws;
- o changes in interest rates and availability and costs of financing;
- o increased operating costs, including insurance premiums, utilities and real estate taxes, due to inflation and other factors which may not necessarily be offset by increased rents; and
- o construction costs.

We may be unable to compete with our larger competitors and other alternatives available to tenants or potential tenants of our properties. The real estate business is highly competitive. We compete for interests in properties with other real estate investors and purchasers, many of whom have greater financial resources, revenues, and geographical diversity than we have. Furthermore, we compete for tenants with other property owners. All of our industrial properties are subject to significant local competition. We also compete with a wide variety of institutions and other investors for capital funds necessary to support our investment activities and asset growth.

We are subject to significant regulation that inhibits our activities. Local zoning and land use laws, environmental statutes and other governmental requirements restrict our expansion, rehabilitation and reconstruction activities. These regulations may prevent us from taking advantage of economic opportunities. Legislation such as the Americans with Disabilities Act may require us to modify our properties and noncompliance could result in the imposition of fines or an award of damages to private litigants. Future legislation may impose additional requirements. We cannot predict what requirements may be enacted or what changes may be implemented to existing legislation.

Risks Associated with Our Properties

We may be unable to lease space. When a lease expires, a tenant may elect not to renew it. We may not be able to re-lease the property on similar terms,

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if we are able to re-lease the property at all. The terms of renewal or re-lease (including the cost of required renovations and/or concessions to tenants) may be less favorable to us than the prior lease. We also develop properties with no pre-leasing. If we are unable to lease all or a substantial portion of our properties, or if the rental rates upon such leasing are significantly lower than expected rates, our cash generated before debt repayments and capital expenditures, and our ability to make expected distributions to stockholders, may be adversely affected.

We have been and may continue to be affected negatively by tenant bankruptcies and leasing delays. At any time, a tenant may experience a downturn in its business that may weaken its financial condition. Similarly, a general decline in the economy may result in a decline in the demand for space at our industrial properties. As a result, our tenants may delay lease commencement, fail to make rental payments when due, or declare bankruptcy. Any such event could result in the termination of that tenant's lease and losses to us, and distributions to investors may decrease. We receive a substantial portion of our income as rents under long-term leases. If tenants are unable to comply with the terms of their leases because of rising costs or falling sales, we may deem it advisable to modify lease terms to allow tenants to pay a lower rent or a smaller share of taxes, insurance and other operating costs. If a tenant becomes insolvent or bankrupt, we cannot be sure that we could recover the premises from the tenant promptly or from a trustee or debtor-in-possession in any bankruptcy proceeding relating to the tenant. We also cannot be sure that we would receive rent in the proceeding sufficient to cover our expenses

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with respect to the premises. If a tenant becomes bankrupt, the federal bankruptcy code will apply and, in some instances, may restrict the amount and recoverability of our claims against the tenant. A tenant's default on its obligations to us could adversely affect our financial condition and the cash we have available for distribution.

We face risks associated with our property development. We intend to continue to develop properties where market conditions warrant such investment. Once made, our investments may not produce results in accordance with our expectations. Risks associated with our current and future development and construction activities include:

- o the availability of favorable financing alternatives;
- o the risk that we may not be able to obtain land on which to develop or that due to the increased cost of land, our activities may not be as profitable, especially in certain land constrained areas;
- o construction costs exceeding original estimates due to rising interest rates and increases in the costs of materials and labor;
- o construction and lease-up delays resulting in increased debt service, fixed expenses and construction costs;
- o expenditure of funds and devotion of management's time to projects that we do not complete;
- o occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on our investment; and
- o complications (including building moratoriums and anti-growth legislation) in obtaining necessary zoning, occupancy and other governmental permits.

We face risks associated with property acquisitions. We acquire individual properties and portfolios of properties, and intend to continue to do so. Our

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acquisition activities and their success are subject to the following risks:

- o when we are able to locate a desired property, competition from other real estate investors may significantly increase the purchase price;
- o acquired properties may fail to perform as expected;
- o the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates;
- o acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures;
- o we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and as a result, our results of operations and financial condition could be adversely affected; and
- o we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, to the transferor with respect to unknown liabilities. As a result, if a claim were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our cash flow.

Coverage under our existing insurance policies may be inadequate to cover losses. We generally maintain insurance policies related to our business, including casualty, general liability and other policies, covering our business operations, employees and assets as appropriate for the markets where each of our properties and business operations are located. However, we would be required to bear all losses that are not adequately covered by insurance. In addition, there may be certain losses that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so, including losses due to floods, wind, earthquakes, acts of war, acts of terrorism or riots. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, then we could lose the capital we invested in the properties, as well as the anticipated future revenue from the properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

We face risks due to lack of geographic and real estate sector diversity. Substantially all of our properties are located in the Sunbelt region of the United States with an emphasis in the states of Florida, Texas, Arizona and California. A downturn in general economic conditions and local real estate conditions in these geographic regions, as a result of oversupply of or reduced demand for industrial properties, local business climate, business layoffs and changing demographics, would have a particularly strong adverse effect on us. Our investments in real estate assets are primarily concentrated in the industrial distribution sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities included a more significant portion of other sectors of the real estate industry.

We face risks due to the illiquidity of real estate which may limit our ability to vary our portfolio. Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in economic and other conditions will therefore be limited. In addition, the Internal Revenue Code limits our ability to sell our properties. If we must sell an investment, we cannot ensure that we will be able to dispose of the investment at terms favorable to the Company.

We face possible environmental liabilities. Current and former real estate owners and operators may be required by law to investigate and clean up

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hazardous substances released at the properties they own or operate. They may also be liable to the government or to third parties for substantial property or natural resource damage, investigation costs and cleanup costs. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the

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contamination. Contamination may affect adversely the owner's ability to use, sell or lease real estate or to borrow using the real estate as collateral. We have no way of determining at this time the magnitude of any potential liability to which we may be subject arising out of environmental conditions or violations with respect to the properties we currently or formerly owned. Environmental laws today can impose liability on a previous owner or operator of a property that owned or operated the property at a time when hazardous or toxic substances were disposed of, released from, or present at, the property. A conveyance of the property, therefore, does not relieve the owner or operator from liability. Although ESAs have been conducted at our properties to identify potential sources of contamination at the properties, such ESAs do not reveal all environmental liabilities or compliance concerns that could arise from the properties. Moreover, material environmental liabilities or compliance concerns may exist, of which we are currently unaware, that in the future may have a material adverse effect on our business, assets or results of operations.

Financing Risks

We face risks associated with the use of debt to fund acquisitions and developments, including refinancing risk. We are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. We anticipate that a portion of the principal of our debt will not be repaid prior to maturity. Therefore, we will likely need to refinance at least a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt.

We face risks related to "balloon payments." Certain of our mortgages will have significant outstanding principal balances on their maturity dates, commonly known as "balloon payments." There can be no assurance whether we will be able to refinance such balloon payments on the maturity of the loans, which may force disposition of properties on disadvantageous terms or require replacement with debt with higher interest rates, either of which would have an adverse impact on our financial performance and ability to pay dividends to investors.

We face risks associated with our dependence on external sources of capital. In order to qualify as a REIT, we are required each year to distribute to our stockholders at least 90% of our REIT taxable income, and we are subject to tax on our income to the extent it is not distributed. Because of this distribution requirement, we may not be able to fund all future capital needs from cash retained from operations. As a result, to fund capital needs, we rely on third-party sources of capital, which we may not be able to obtain on favorable terms, if at all. Our access to third-party sources of capital depends upon a number of factors, including (i) general market conditions; (ii) the market's perception of our growth potential; (iii) our current and potential future earnings and cash distributions; and (iv) the market price of our capital stock. Additional debt financing may substantially increase our debt-to-total capitalization ratio. Additional equity financing may dilute the holdings of our current stockholders.

Covenants in our credit agreements could limit our flexibility and adversely

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affect our financial condition. The terms of our various credit agreements and other indebtedness require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flow and our financial condition would be adversely affected.

Fluctuations in interest rates may adversely affect our operations and value of our stock. As of December 31, 2007, we had approximately \$135 million of variable interest rate debt. As of December 31, 2007, the weighted average interest rate on our variable rate debt was 5.65%. We may also incur indebtedness in the future that bears interest at a variable rate or we may be required to refinance our existing debt at higher rates. Accordingly, increases in interest rates could adversely affect our financial condition, our ability to pay expected distributions to stockholders and the value of our stock.

A lack of any limitation on our debt could result in our becoming more highly leveraged. Our governing documents do not limit the amount of indebtedness we may incur. Accordingly, our Board of Directors may incur additional debt and would do so, for example, if it were necessary to maintain our status as a REIT. We might become more highly leveraged as a result, and our financial condition and cash available for distribution to stockholders might be negatively affected and the risk of default on our indebtedness could increase.

Other Risks

The market value of our common stock could decrease based on our performance and market perception and conditions. The market value of our common stock may be based primarily upon the market's perception of our growth potential and current and future cash dividends, and may be secondarily based upon the real estate market value of our underlying assets. The market price of our common stock is influenced by the dividend on our common stock relative to market interest rates. Rising interest rates may lead potential buyers of our common stock to expect a higher dividend rate, which would adversely affect the market price of our common stock. In addition, rising interest rates would result in increased expense, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

We may fail to qualify as a REIT. If we fail to qualify as a REIT, we will not be allowed to deduct distributions to stockholders in computing our taxable income and will be subject to federal income tax, including any applicable alternative minimum tax, at regular corporate rates. In addition, we may be barred from qualification as a REIT for the four years following disqualification. The additional tax incurred at

regular corporate rates would significantly reduce the cash flow available for distribution to stockholders and for debt service. Furthermore, we would no longer be required by the Internal Revenue Code to make any distributions to our stockholders as a condition of REIT qualification. Any distributions to stockholders would be taxable as ordinary income to the extent of our current and accumulated earnings and profits, although such dividend distributions would be subject to a top federal tax rate of 15% through 2010. Corporate distributees, however, may be eligible for the dividends received deduction on the distributions, subject to limitations under the Internal Revenue Code. To qualify as a REIT, we must comply with certain highly technical and complex requirements. We cannot be certain we have complied with these requirements

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because there are few judicial and administrative interpretations of these provisions. In addition, facts and circumstances that may be beyond our control may affect our ability to qualify as a REIT. We cannot assure you that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to our qualification as a REIT or with respect to the federal income tax consequences of qualification. We cannot assure you that we will remain qualified as a REIT.

There is a risk of changes in the tax law applicable to real estate investment trusts. Since the Internal Revenue Service, the United States Treasury Department and Congress frequently review federal income tax legislation, we cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any of such legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our investors.

Our Charter contains provisions that may adversely affect the value of shareholders' stock. Our charter generally limits any holder from acquiring more than 9.8% (in value or in number, whichever is more restrictive) of our outstanding equity stock (defined as all of our classes of capital stock, except our excess stock). The ownership limit may limit the opportunity for stockholders to receive a premium for their shares of common stock that might otherwise exist if an investor were attempting to assemble a block of shares in excess of 9.8% of the outstanding shares of equity stock or otherwise effect a change in control. Also, the request of the holders of a majority or more of our common stock is necessary for stockholders to call a special meeting. We also require advance notice by stockholders for the nomination of directors or proposal of business to be considered at a meeting of stockholders.

We have adopted a stockholder rights plan that may make a change in control difficult. Under the terms of the plan, we declared a dividend of rights on our common stock. The rights issued under the plan will be triggered, with certain exceptions, if and when any person or group acquires, or commences a tender offer to acquire, 15% or more of our shares, our Board of Directors determines that a substantial stockholder's ownership may be adverse to the interests of our other stockholders or our qualification as a REIT, or other similar events. The plan could have the effect of deterring or preventing our acquisition, even if a majority of our stockholders were in favor of such acquisition, and could have the effect of making it more difficult for a person or group to gain control of us or to change existing management.

The Company faces risks in attracting and retaining key personnel. Many of our senior executives have strong industry reputations, which aid us in identifying acquisition and development opportunities and negotiating with tenants and sellers of properties. The loss of the services of these key personnel could affect our operations because of diminished relationships with existing and prospective tenants, property sellers and industry personnel. In addition, attracting new or replacement personnel may be difficult in a competitive market.

We have severance and change in control agreements with certain of our officers that may deter changes in control of the Company. If, within a certain time period (as set in the officer's agreement) following a change in control, we terminate the officer's employment other than for cause, or if the officer elects to terminate his or her employment with us for reasons specified in the agreement, we will make a severance payment equal to the officer's average annual compensation times an amount specified in the officer's agreement, together with the officer's base salary and vacation pay that have accrued but are unpaid through the date of termination. These agreements may deter a change in control because of the increased cost for a third party to acquire control of us.

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Our Board of Directors may authorize and issue securities without stockholder approval. Under our Charter, the Board has the power to classify and reclassify any of our unissued shares of capital stock into shares of capital stock with such preferences, rights, powers and restrictions as the Board of Directors may determine. The authorization and issuance of a new class of capital stock could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our stockholders' best interests.

Maryland business statutes may limit the ability of a third party to acquire control of us. Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (a) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (b) authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholders rights plan, (c) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (d) act or fail to act solely because of the effect of the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law the act of a director of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

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The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10 percent or more of its assets, certain issuances of shares of stock and other specified transactions, with an "interested stockholder" or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10 percent or more of the voting power of the outstanding stock of the Maryland corporation.

The Maryland Control Share Acquisition Act provides that "control shares" of a corporation acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to cast on the matter. "Control Shares" means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquirer, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of the voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

If voting rights of control shares acquired in a control share acquisition are not approved at a stockholders' meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

EastGroup owned 202 industrial properties and one office building at December 31, 2007. These properties are located primarily in the Sunbelt states of Florida, Texas, Arizona and California, the majority of which are clustered around major transportation features in supply constrained submarkets. The Company has developed approximately 32% of its total portfolio, including real estate properties and development properties in lease-up and under construction. The Company's focus is the ownership of business distribution space (78% of the total portfolio) with the remainder in bulk distribution space (17%) and business service space (5%). Business distribution space properties are typically multi-tenant buildings with a building depth of 200 feet or less, clear height of 20-24 feet, office finish of 10-25% and truck courts with a depth of 100-120 feet. See Consolidated Financial Statement Schedule III - Real Estate Properties and Accumulated Depreciation for a detailed listing of the Company's properties.

At December 31, 2007, EastGroup did not own any single property that was 10% or more of total book value or 10% or more of total gross revenues and thus is not subject to the requirements of Items 14 and 15 of Form S-11.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company or its properties, other than routine litigation arising in the ordinary course of business or which is expected to be covered by the Company's liability insurance.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

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PART II. OTHER INFORMATION

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

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

Shares of Common Stock Market Prices and Dividends

Quarter	Calendar 2007			Calendar 2006		
	High	Low	Distributions	High	Low	Dist
First	\$ 57.55	50.27	\$.50	\$ 48.60	44.12	\$
Second	52.00	43.24	.50	47.50	42.54	
Third	46.28	38.49	.50	51.29	45.23	
Fourth	48.86	40.44	.50	56.50	48.95	
			\$ 2.00			\$

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As of February 27, 2008, there were 833 holders of record of the Company's 23,804,206 outstanding shares of common stock. The Company distributed all of its 2007 and 2006 taxable income to its stockholders. Accordingly, no provision for income taxes was necessary. The following table summarizes the federal income tax treatment for all distributions by the Company for the years 2007 and 2006.

Federal Income Tax Treatment of Share Distributions

	Years Ended December	
	2007	
Common Share Distributions:		
Ordinary Income.....	\$ 1.7449	1.
Return of capital.....	.1273	.
Unrecaptured Section 1250 long-term capital gain.....	.0236	.
Other long-term capital gain.....	.1042	.
Total Common Distributions.....	\$ 2.0000	1.

Securities Authorized For Issuance Under Equity Compensation Plans

See Item 12 of this Annual Report on Form 10-K, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," for certain information regarding the Company's equity compensation plans.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Share Purchased as Part of Publicly Announced Plans or Programs
10/01/07 thru 10/31/07	-	-	-
11/01/07 thru 11/30/07	-	-	-
12/01/07 thru 12/31/07	5,070 (1)	\$ 41.85	-
Total	5,070	\$ 41.85	-

(1) As permitted under the Company's equity compensation plans, these shares were withheld by the Company to satisfy the tax withholding obligations for those employees who elected this option in connection with the vesting of shares of restricted stock. Shares withheld for tax withholding obligations do not affect the total number of remaining shares available for repurchase under the Company's common stock repurchase plan.

(2) EastGroup's Board of Directors has authorized the repurchase of up to 1,500,000 shares of its outstanding common stock. The shares may be purchased from time to time in the open market or in privately negotiated transactions. Under the common stock repurchase plan, the Company has purchased a total of 827,700 shares for \$14,170,000 (an average of \$17.12 per share) with 672,300 shares still authorized for repurchase. The Company has not repurchased any

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shares under this plan since 2000.

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Performance Graph

The following graph compares, over the five years ended December 31, 2007, the cumulative total shareholder return on EastGroup's Common Stock with the cumulative total return of the Standard & Poor's 500 Index (S&P 500) and the Equity REIT index prepared by the National Association of Real Estate Investment Trusts (NAREIT Equity).

The performance graph and related information shall not be deemed "soliciting material" or be deemed to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing, except to the extent that the Company specifically incorporates it by reference into such filing.

[GRAPHIC OMITTED]

	Fiscal years ended December 31,				
	2002	2003	2004	2005	2006
EastGroup	\$ 100.00	135.83	169.73	209.43	258.42
NAREIT Equity	100.00	137.13	180.44	202.38	273.33
S&P 500	100.00	126.38	137.74	141.87	161.19

The information above assumes that the value of the investment in shares of EastGroup's Common Stock and each index was \$100 on December 31, 2002, and that all dividends were reinvested.

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ITEM 6. SELECTED FINANCIAL DATA.

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

	Years End	
	2007	2006
	(In thousands, e	
OPERATING DATA		
Revenues		
Income from real estate operations.....	\$ 150,638	132,963
Other income.....	92	182
	150,730	133,145
Expenses		

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Expenses from real estate operations.....	41,118	37,218
Depreciation and amortization.....	47,908	41,377
General and administrative.....	8,295	7,401
	97,321	85,996
Operating Income	53,409	47,149
Other Income (Expense)		
Equity in earnings of unconsolidated investment.....	285	287
Gain on sales of land.....	2,602	123
Gain on securities.....	-	-
Interest income.....	306	142
Interest expense.....	(27,314)	(24,616)
Minority interest in joint ventures.....	(609)	(600)
Income from Continuing Operations	28,679	22,485
Discontinued operations		
Income from real estate operations.....	95	1,022
Gain on sales of real estate investments.....	960	5,727
Income from discontinued operations.....	1,055	6,749
Net income	29,734	29,234
Preferred dividends-Series A.....	-	-
Preferred dividends-Series B.....	-	-
Preferred dividends-Series D.....	2,624	2,624
Costs on redemption of Series A preferred.....	-	-
Net income available to common stockholders.....	\$ 27,110	26,610
BASIC PER COMMON SHARE DATA		
Income from continuing operations.....	\$ 1.11	.89
Income from discontinued operations.....	.04	.30
Net income available to common stockholders.....	\$ 1.15	1.19
Weighted average shares outstanding.....	23,562	22,372
DILUTED PER COMMON SHARE DATA		
Income from continuing operations.....	\$ 1.10	.87
Income from discontinued operations.....	.04	.30
Net income available to common stockholders.....	\$ 1.14	1.17
Weighted average shares outstanding.....	23,781	22,692
OTHER PER SHARE DATA		
Book value (at end of year).....	\$ 15.51	16.28
Common distributions declared.....	2.00	1.96
Common distributions paid.....	2.00	1.96
BALANCE SHEET DATA (AT END OF YEAR)		
Real estate investments, at cost	\$1,270,559	1,091,491

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Real estate investments, net of accumulated depreciation.....	1,001,427	860,385
Total assets.....	1,055,833	911,787
Mortgage and bank loans payable.....	600,804	446,506
Total liabilities.....	651,136	490,842
Minority interest in joint ventures.....	2,312	2,148
Total stockholders' equity.....	402,385	418,797

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

EastGroup's goal is to maximize shareholder value by being the leading provider in its markets of functional, flexible, and quality business distribution space for location sensitive tenants primarily in the 5,000 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 and California.

The Company's primary revenue is rental income; as such, EastGroup's greatest challenge is leasing space. During 2007, leases on 4,990,000 square feet (21.1%) of EastGroup's total square footage of 23,694,000 expired, and the Company was successful in renewing or re-leasing 85% of that total. In addition, EastGroup leased 861,000 square feet of other vacant space during the year. During 2007, average rental rates on new and renewal leases increased by 12.4%.

EastGroup's total leased percentage was 96.0% at December 31, 2007 compared to 96.6% at December 31, 2006. Leases scheduled to expire in 2008 were 15.3% of the portfolio on a square foot basis at December 31, 2007, and this figure was reduced to 13.0% as of February 27, 2008. Property net operating income (PNOI) from same properties increased 3.6% for 2007 as compared to 2006. The fourth quarter of 2007 was EastGroup's eighteenth consecutive quarter of same property PNOI growth.

The Company generates new sources of leasing revenue through its acquisition and development programs. During 2007, EastGroup purchased seven operating properties (1,079,000 square feet in 15 buildings), one property for redevelopment (68,000 square feet) and 102 acres of developable land for a total cost of \$73.1 million. Two of the properties are in Charlotte, North Carolina, a new market for EastGroup in late 2006; the Company now owns almost one million square feet in Charlotte. One of the properties is in San Antonio, Texas, a new market for EastGroup in 2004. The Company now has approximately 1.7 million square feet in this market, including properties under development. The other four operating properties are located in Tucson, Arizona; City of Industry (Los Angeles), California; Dallas, Texas; and Denver, Colorado. The third new market for EastGroup in the last few years is Fort Myers, Florida, where the Company completed the construction of two buildings during the year and currently has one building under construction. Construction on the Denver, Colorado property purchased for redevelopment was completed in November 2007.

EastGroup continues to see targeted development as a major contributor to the Company's growth. 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 2007, the Company transferred 14 properties (959,000 square feet) with aggregate costs of \$69.8 million at the date of transfer from development to real estate properties. These properties, twelve of which are 100% leased, are located in Chandler, Arizona; Orlando, Tampa and Fort Myers, Florida; Houston and San Antonio, Texas; and Santa Barbara, California. During the second quarter of 2007, the Company executed a ten-year lease for a 404,000 square foot build-to-suit development in its Southridge Commerce Park in Orlando. The

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projected cost of this development is approximately \$20.4 million; construction began in June 2007 with occupancy projected in the second quarter of 2008.

During 2007, the Company primarily funded its acquisition and development programs through a \$175 million line of credit. In January 2008, the Company replaced its previous credit facility with a four-year, \$200 million unsecured revolving credit facility as discussed in Liquidity and Capital Resources. As market conditions permit, EastGroup issues equity, including preferred equity, and/or employs fixed-rate, non-recourse first mortgage debt to replace the short-term bank borrowings.

On August 8, 2007, the Company closed on a \$75 million, non-recourse first mortgage loan secured by properties containing 1,448,000 square feet. The loan has a fixed interest rate of 5.57%, a ten-year term and an amortization schedule of 20 years. The proceeds of this note were used to reduce variable rate bank borrowings.

During 2007, the Company sold one property in Memphis and recognized a gain of \$603,000. In addition, the Company recognized deferred gains of \$387,000 from previous sales. Also, during the fourth quarter of 2007, the Company received proceeds of \$3,050,000 for the sale of land in lieu of condemnation at Arion Business Park and recognized a gain of \$2,572,000. In addition, the Company received escrow interest income of \$167,000 from the transaction.

Tower Automotive, Inc. (Tower) filed for Chapter 11 reorganization in early 2005. Tower leases 210,000 square feet from EastGroup under a lease expiring in December 2010 and has been current with their lease payments since declaring bankruptcy. In July 2007, the Bankruptcy Court approved the affirmation of Tower's lease with EastGroup. On July 31, 2007, Tower announced that it had completed the sale of substantially all of its assets to Tower Automotive, LLC, an affiliate of Cerberus Capital Management, L.P. The sale concluded Tower's restructuring process and finalized its emergence from Chapter 11.

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 that permit 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: property net operating income (PNOI), defined as income from real estate operations less property operating expenses (before interest expense and depreciation and amortization), and funds from operations available to common stockholders (FFO), defined as net income (loss) computed in accordance with U.S. generally accepted accounting principles (GAAP), excluding gains or losses from sales of depreciable real estate property, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. 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 that the exclusion of depreciation and amortization in the industry's calculation of PNOI provides a supplemental indicator

of the property's 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 REITs. The major factors that influence 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.

Real estate income is comprised of rental income, pass-through income and other real estate income including lease termination fees. Property operating expenses are comprised of property taxes, insurance, utilities, repair and

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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 Company believes FFO is an appropriate measure of performance for equity real estate investment trusts. The Company believes that 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. 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 expense. The following table presents the three fiscal years reconciliations of PNOI and FFO Available to Common Stockholders to Net Income.

	Years Ended	
	2007	
	(In thousands, except per share amounts)	
Income from real estate operations.....	\$ 150,638	1
Expenses from real estate operations.....	(41,118)	(
PROPERTY NET OPERATING INCOME.....	109,520	
Equity in earnings of unconsolidated investment (before depreciation).....	417	
Income from discontinued operations (before depreciation and amortization)....	245	
Interest income.....	306	
Other income.....	92	
Interest expense.....	(27,314)	(
General and administrative expense.....	(8,295)	
Minority interest in earnings (before depreciation and amortization).....	(783)	
Gain on sales of land.....	2,602	
Dividends on Series D preferred shares.....	(2,624)	
FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS.....	74,166	
Depreciation and amortization from continuing operations.....	(47,908)	(
Depreciation and amortization from discontinued operations.....	(150)	
Depreciation from unconsolidated investment.....	(132)	
Minority interest depreciation and amortization.....	174	
Gain on sales of depreciable real estate investments.....	960	
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS.....	27,110	
Dividends on preferred shares.....	2,624	
NET INCOME.....	\$ 29,734	

Net income available to common stockholders per diluted share.....	\$	1.14
Funds from operations available to common stockholders per diluted share.....		3.12
Diluted shares for earnings per share and funds from operations.....		23,781

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

- o The FFO change per share represents the increase or decrease in FFO per share from the same quarter in the current year compared to the prior year. FFO per share for the fourth quarter of 2007 was \$.86 per share compared with \$.72 per share for the same period of 2006, an increase of 19.4% per share. PNOI increased 13.6% due to additional PNOI of \$1,568,000 from newly developed properties, \$1,404,000 from 2006 and 2007 acquisitions and \$352,000 from same property growth. A gain on the sale of land in lieu of condemnation at Arion Business Park was recorded during the quarter, increasing FFO by \$2,572,000. Excluding gain on land sales of \$2,579,000 in the fourth quarter of 2007 and \$129,000 in the same quarter of 2006, FFO per share increased 7.0% in the fourth quarter of 2007 compared to the previous year's quarter. The fourth quarter of 2007 was the fourteenth consecutive quarter of increased FFO as compared to the previous year's quarter.

For the year 2007, FFO was \$3.12 per share compared with \$2.81 per share for 2006, an increase of 11.0% per share. PNOI increased 14.4% due to additional PNOI of \$5,671,000 from newly developed properties, \$4,813,000 from 2006 and 2007 acquisitions and \$3,368,000 from same property growth. The Company recognized gain on land sales of \$2,602,000 in 2007 compared to \$791,000 in 2006. In addition, \$1,149,000 in lease termination fees were recognized in 2007 compared to \$410,000 in 2006. Without termination fees and gain on land sales for both years, the increase in FFO per share would have been 7.2%.

- o Same property net operating income change represents the PNOI increase or decrease for operating properties owned during the entire current period and prior year reporting period. PNOI from same properties increased 1.4% for the fourth quarter. The fourth quarter of 2007 was the eighteenth consecutive quarter of improved same property operations. For the year 2007, PNOI from same properties increased 3.6%.
- o Occupancy is the percentage of total leasable square footage for which the lease term has commenced as of the close of the reporting period. Occupancy at December 31, 2007 was 95.4%. Occupancy has ranged from 91.2% to 96.1% for 16 consecutive quarters.
- o 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 (4.2% of total square footage) averaged 17.3% for the fourth quarter of 2007. For the year, rental rate increases on new and renewal leases (21.5% of total square footage) averaged 12.4%.

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

Real Estate Properties

The Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values. 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 remaining purchase price is allocated among three categories of intangible assets consisting of 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 which reflects 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 to 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.

During the industrial development stage, costs associated with development (i.e., land, construction costs, interest expense during construction and lease-up, property taxes and other direct and indirect costs associated with development) are aggregated into the total capitalization of the property. Included in these costs are management's estimates for the portions of internal costs (primarily personnel costs) that are deemed directly or indirectly related to such development activities.

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

Valuation of Receivables

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

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allowance for doubtful accounts is insufficient for an account that is subsequently written off, additional bad debt expense would be recognized as a current period charge in the income statement.

Tax Status

EastGroup, a Maryland corporation, has qualified as a real estate investment trust under Sections 856-860 of the Internal Revenue Code and intends to continue to qualify as such. To maintain its status as a REIT, the Company is required to distribute at least 90% of its ordinary taxable income to its stockholders. The Company has the option of (i) reinvesting the sales price of properties sold through tax-deferred exchanges, allowing for a deferral of capital gains on the sale, (ii) paying out capital gains to the stockholders with no tax to the Company, or (iii) treating the capital gains as having been distributed to the stockholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the stockholders. The Company distributed all of its 2007, 2006 and 2005 taxable income to its stockholders. Accordingly, no provision for income taxes was necessary.

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FINANCIAL CONDITION

EastGroup's assets were \$1,055,833,000 at December 31, 2007, an increase of \$144,046,000 from December 31, 2006. Liabilities increased \$160,294,000 to \$651,136,000 and stockholders' equity decreased \$16,412,000 to \$402,385,000 during the same period. The paragraphs that follow explain these changes in detail.

ASSETS

Real Estate Properties

Real estate properties increased \$141,056,000 during the year ended December 31, 2007, primarily due to the purchase of seven properties and the transfer of fourteen properties from development, as detailed below.

Real Estate Properties Acquired in 2007	Location	Size	Date Acquired
		(Square feet)	
Westinghouse and Lindbergh I & II.....	Charlotte, NC	181,000	01/07
North Stemmons III.....	Dallas, TX	60,000	01/30
Fairgrounds Business Park.....	San Antonio, TX	231,000	03/07
Nations Ford Distribution Center.....	Charlotte, NC	456,000	03/07
Country Club Commerce Center II.....	Tucson, AZ	45,000	05/10
Industry Distribution Center III.....	City of Industry, CA	28,000	06/20
Concord Distribution Center.....	Denver, CO	78,000	12/10
Total Acquisitions.....		1,079,000	

- (1) Total cost of the properties acquired was \$57,246,000, of which \$53,952,000 was allocated to real estate properties as indicated above. Intangibles associated with the purchases of real estate were allocated as follows: \$3,661,000 to in-place lease intangibles and \$246,000 to above market leases (both included in Other Assets on the consolidated balance sheet) and \$613,000 to below market leases (included in Other Liabilities on the consolidated balance sheet). All of these costs are amortized over the remaining lives of the associated leases in place at the time of

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acquisition.

Real Estate Properties Transferred from Development in 2007	Location	Size (Square feet)	D Trans
Santan 10 II.....	Chandler, AZ	85,000	01/
Oak Creek III.....	Tampa, FL	61,000	03/
Southridge VI.....	Orlando, FL	81,000	04/
Arion 16.....	San Antonio, TX	64,000	04/
Southridge III.....	Orlando, FL	81,000	04/
Southridge II.....	Orlando, FL	41,000	05/
World Houston 15.....	Houston, TX	63,000	05/
World Houston 23.....	Houston, TX	125,000	05/
Arion 17.....	San Antonio, TX	40,000	06/
Beltway Crossing II.....	Houston, TX	50,000	09/
SunCoast II.....	Fort Myers, FL	63,000	10/
Castilian Research Center.....	Santa Barbara, CA	37,000	10/
Oak Creek V.....	Tampa, FL	100,000	11/
World Houston 22.....	Houston, TX	68,000	12/
Total Developments Transferred....		959,000	

The Company made capital improvements of \$15,881,000 on existing and acquired properties (included in the Capital Expenditures table under Results of Operations). Also, the Company incurred costs of \$4,936,000 on development properties subsequent to transfer to real estate properties; the Company records these expenditures as development costs on the consolidated statements of cash flows during the 12-month period following transfer. These additions were offset by the sale of one property, Delp Distribution Center I, with costs of \$3,470,000.

Development

The investment in development at December 31, 2007 was \$152,963,000 compared to \$114,986,000 at December 31, 2006. Total capital invested for development during 2007 was \$112,960,000. The table below is net of \$233,000 of land sold during the year. In addition to the costs incurred for the year as detailed in the development activity table, the Company incurred costs of \$4,936,000 for improvements on developments during the 12-month period following transfer to real estate properties.

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In the first quarter of 2007, EastGroup acquired Centennial Park Distribution Center in Denver for \$4,131,000. The building, which was built in 1990, contains 68,000 square feet and is located near Centennial Airport in southeast Denver. Redevelopment was completed in the fourth quarter of 2007. Costs associated with this acquisition are included in the development activity table.

In addition, the Company executed a ten-year lease with United Stationers Supply Co. for a 404,000 square foot build-to-suit development in its Southridge Commerce Park in Orlando. The projected cost of this development is approximately \$20.4 million; construction began in June 2007 with occupancy projected in the second quarter of 2008. As part of this transaction, EastGroup entered into contracts with United Stationers to purchase two of its existing properties (278,000 square feet) in Jacksonville and Tampa, Florida, for approximately \$9 million. These acquisitions are expected to close in mid-2008,

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in line with completion of the build-to-suit development.

During 2007, EastGroup purchased 102 acres of developable land for approximately \$11.7 million. Costs associated with these acquisitions are included in the development activity table. The Company transferred 14 developments to real estate properties during 2007 with a total investment of \$69,814,000 as of the date of transfer.

DEVELOPMENT	Size	Costs Incurred	
		Costs Transferred in 2007 (1)	For the Year Ended 12/31/07
	(Square feet)		(In millions)
LEASE-UP			
Beltway Crossing III & IV, Houston, TX.....	110,000	\$ -	1,134
Interstate Commons III, Phoenix, AZ.....	38,000	-	2,475
Oak Creek A & B, Tampa, FL(2).....	35,000	-	2,190
Southridge VII, Orlando, FL.....	92,000	3,312	2,774
SunCoast I, Fort Myers, FL.....	63,000	-	2,449
World Houston 24, Houston, TX.....	93,000	-	4,064
World Houston 25, Houston, TX.....	66,000	-	2,549
Centennial Park, Denver, CO.....	68,000	-	4,747
Beltway Crossing V, Houston, TX.....	83,000	1,077	2,669
Wetmore II, Building A, San Antonio, TX.....	34,000	504	2,297
Total Lease-up.....	682,000	4,893	27,348
UNDER CONSTRUCTION			
40th Avenue Distribution Center, Phoenix, AZ....	89,000	-	4,046
Arion 18, San Antonio, TX.....	20,000	1,236	719
Wetmore II, Buildings B & C, San Antonio, TX....	124,000	1,269	5,111
Oak Creek VI, Tampa, FL.....	89,000	2,412	1,493
Beltway Crossing VI, Houston, TX.....	127,000	1,058	2,465
Southridge VIII, Orlando, FL.....	91,000	2,407	1,633
Wetmore II, Building D, San Antonio, TX.....	124,000	1,382	1,603
Sky Harbor, Phoenix, AZ.....	261,000	6,946	7,062
Southridge XII, Orlando, FL.....	404,000	4,089	11,011
SunCoast III, Fort Myers, FL.....	93,000	4,175	-
Techway SW IV, Houston, TX.....	94,000	1,968	-
World Houston 27, Houston, TX.....	92,000	2,483	-
Total Under Construction.....	1,608,000	29,425	35,143
PROSPECTIVE DEVELOPMENT (PRIMARILY LAND)			
Phoenix, AZ.....	-	(6,946)	431
Tucson, AZ.....	205,000	-	1,719
Tampa, FL.....	335,000	(2,412)	2,332
Orlando, FL.....	229,000	(9,808)	5,199
West Palm Beach, FL.....	20,000	-	126
Fort Myers, FL.....	659,000	(4,175)	4,326
El Paso, TX.....	251,000	-	-
Houston, TX.....	1,306,000	(6,586)	11,628
San Antonio, TX.....	410,000	(4,391)	3,551
Jackson, MS.....	28,000	-	-
Total Prospective Development.....	3,443,000	(34,318)	29,312

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	5,733,000	\$	-	91,803
=====				
DEVELOPMENTS COMPLETED AND TRANSFERRED				
TO REAL ESTATE PROPERTIES DURING 2007				
Santan 10 II, Chandler, AZ.....	85,000	\$	-	-
Oak Creek III, Tampa, FL.....	61,000		-	119
Southridge VI, Orlando, FL.....	81,000		-	323
Arion 16, San Antonio, TX.....	64,000		-	1,411
Southridge III, Orlando, FL.....	81,000		-	713
Southridge II, Orlando, FL.....	41,000		-	244
World Houston 15, Houston, TX.....	63,000		-	276
World Houston 23, Houston, TX.....	125,000		-	2,888
Arion 17, San Antonio, TX.....	40,000		-	90
Beltway Crossing II, Houston, TX.....	50,000		-	911
SunCoast II, Fort Myers, FL.....	63,000		-	2,953
Castilian Research Center, Santa Barbara, CA....	37,000		-	3,925
Oak Creek V, Tampa, FL.....	100,000		-	563
World Houston 22, Houston, TX.....	68,000		-	1,572

Total Transferred to Real Estate Properties.....	959,000	\$	-	15,988
=====				

(1) Represents costs transferred from Prospective Development (primarily land) to Under Construction (or subsequently to Lease-up) during the period.

(2) These buildings were developed for sale.

(3) Represents cumulative costs at the date of transfer.

(4) Included in these costs are development obligations of \$31.9 million and tenant improvement obligations of \$5.4 million on properties under development.

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Accumulated depreciation on real estate properties increased \$38,026,000, primarily due to depreciation expense of \$39,688,000 on real estate properties, offset by accumulated depreciation on properties sold of \$1,102,000. The majority of this amount represents accumulated depreciation on Delp Distribution Center I, which was sold in 2007.

A summary of Other Assets is presented in Note 5 in the Notes to the Consolidated Financial Statements.

LIABILITIES

Mortgage notes payable increased \$47,920,000 during the year ended December 31, 2007. In August, the Company closed a new \$75,000,000 first mortgage loan secured by properties containing 1,448,000 square feet. The loan has a fixed interest rate of 5.57%, a ten-year term and an amortization schedule of 20 years. The proceeds of this note were used to reduce variable rate bank borrowings. This increase was offset by the repayment of two mortgage loans of \$14,220,000, regularly scheduled principal payments of \$12,743,000, and mortgage loan premium amortization of \$117,000.

Notes payable to banks increased \$106,378,000 during 2007 as a result of advances of \$332,544,000 exceeding repayments of \$226,166,000. The Company's credit facilities are described in greater detail under Liquidity and Capital Resources.

See Note 8 in the Notes to the Consolidated Financial Statements for a summary of Accounts Payable and Accrued Expenses. See Note 9 in the Notes to the Consolidated Financial Statements for a summary of Other Liabilities.

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STOCKHOLDERS' EQUITY

Distributions in excess of earnings were \$20,445,000 during the year as a result of dividends on common and preferred stock of \$50,179,000 exceeding net income for financial reporting purposes of \$29,734,000. See Note 11 in the Notes to the Consolidated Financial Statements for information related to the changes in additional paid-in capital resulting from stock-based compensation.

RESULTS OF OPERATIONS

2007 Compared to 2006

Net income available to common stockholders for 2007 was \$27,110,000 (\$1.15 per basic share and \$1.14 per diluted share) compared to \$26,610,000 (\$1.19 per basic share and \$1.17 per diluted share) for 2006. Diluted earnings per share (EPS) for 2007 included a \$.15 per share gain on sales of real estate properties compared to a \$.26 per share gain on sales of properties in 2006.

PNOI increased by \$13,775,000, or 14.4%, for 2007 compared to 2006, primarily due to increased average occupancy and rental rates, acquisitions and developments. Expense to revenue ratios were 27.3% in 2007 compared to 28.0% in 2006. The Company's percentage leased was 96.0% at December 31, 2007 compared to 96.6% at December 31, 2006. Occupancy at the end of 2007 was 95.4% compared to 95.9% at the end of 2006.

The increase in PNOI was primarily attributable to additional PNOI of \$5,671,000 from newly developed properties, \$4,813,000 from 2006 and 2007 acquisitions and \$3,368,000 from same property growth. Included in same property growth was \$1,149,000 in lease termination fees for 2007 compared to \$410,000 for 2006. These increases in PNOI were offset by increased depreciation and amortization expense and other costs as discussed below.

During the fourth quarter of 2007, EastGroup recorded a gain on the sale of land in lieu of condemnation at Arion Business Park of \$2,572,000. For the year, the Company recognized gain on land sales of \$2,602,000 in 2007 compared to \$791,000 in 2006.

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The following table presents the components of interest expense for 2007 and 2006:

	Years Ended Dec
	2007
	(In thousands, e
Average bank borrowings.....	\$ 96,513
Weighted average variable interest rates.....	6.36%
 VARIABLE RATE INTEREST EXPENSE	
Variable rate interest (excluding loan cost amortization).....	6,139
Amortization of bank loan costs.....	353
 Total variable rate interest expense.....	6,492
 FIXED RATE INTEREST EXPENSE	
Fixed rate interest (excluding loan cost amortization).....	26,350
Amortization of mortgage loan costs.....	558

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Total fixed rate interest expense.....	26,908
Total interest.....	33,400
Less capitalized interest.....	(6,086)
TOTAL INTEREST EXPENSE.....	\$ 27,314

Interest costs incurred during the period of construction of real estate properties are capitalized and offset against interest expense. The Company's weighted average variable interest rates in 2007 were higher than in 2006. In recent years, the Company closed several new mortgages with ten-year terms at fixed rates and used the proceeds to reduce the Company's exposure to changes in variable bank rates. A summary of the Company's weighted average interest rates on mortgage debt at year-end for the past several years is presented below:

MORTGAGE DEBT AS OF:	WEIGHTED AVERAGE INTEREST RATE
December 31, 2003.....	6.92%
December 31, 2004.....	6.74%
December 31, 2005.....	6.31%
December 31, 2006.....	6.21%
December 31, 2007.....	6.06%

The increase in mortgage interest expense in 2007 was primarily due to the new mortgages detailed in the table below.

NEW MORTGAGES IN 2006 AND 2007	INTEREST RATE	DATE
Huntwood and Wiegman Distribution Centers.....	5.680%	08/08/06
Alamo Downs, Arion 1-15 & 17, Rampart I, II & III, Santan 10 and World Houston 16.....	5.970%	10/17/06
Broadway VI, World Houston 1 & 2, 21 & 23, Arion 16, Ethan Allen, Northpark I-IV, South 55th Avenue, East University I & II and Santan 10 II.....	5.570%	08/08/07
Weighted Average/Total Amount.....	5.755%	

Mortgage principal payments were \$26,963,000 in 2007 and \$45,071,000 in 2006. Included in these principal payments are repayments of two mortgages totaling \$14,220,000 in 2007 and three mortgages totaling \$35,929,000 in 2006. The details of these mortgages are shown in the following table:

MORTGAGE LOANS REPAYED IN 2006 AND 2007	INTEREST RATE	DATE REPAID	PA AM
Huntwood Distribution Center.....	7.990%	08/08/06	\$ 10
Wiegman Distribution Center.....	7.990%	08/08/06	4
Arion Business Park.....	4.450%	10/16/06	20

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	Estimated Useful Life	----- 2007	2006 -----
		(In thousands)	
Development.....	Lease Life	\$ 3,108	2,110
New Tenants.....	Lease Life	2,805	2,557
New Tenants (first generation) (1).....	Lease Life	212	112
Renewal Tenants.....	Lease Life	2,124	1,987
		-----	-----
Total capitalized leasing costs.....		\$ 8,249	6,766
		=====	=====
Amortization of leasing costs (2).....		\$ 5,339	4,304
		=====	=====

(1) First generation refers to space that has never been occupied under EastGroup's ownership.

(2) Includes discontinued operations.

Discontinued Operations

The results of operations, including interest expense (if applicable), for the properties sold or held for sale during the periods reported are shown under Discontinued Operations on the consolidated income statements. During 2007, the Company sold one property and recognized a gain of \$603,000. In addition, the Company recognized deferred gains of \$357,000 from previous sales.

During 2006, the Company sold certain real estate investments and recognized total gains from discontinued operations of \$5,727,000. See Notes 1(f) and 2 in the Notes to the Consolidated Financial Statements for more information related to discontinued operations and gain on the sales of these properties. The following table presents the components of revenue and expense for the real estate investments sold during 2007 and 2006.

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	Years Ended December 31,	
	2007	2006
Discontinued Operations	-----	-----
	(In thousands)	
Income from real estate operations.....	\$ 331	2,634
Expenses from real estate operations.....	(86)	(772)
	-----	-----
Property net operating income from discontinued operations....	245	1,862
Depreciation and amortization.....	(150)	(840)
	-----	-----
Income from real estate operations.....	95	1,022
Gain on sales of real estate investments.....	960	5,727
	-----	-----
Income from discontinued operations.....	\$ 1,055	6,749
	=====	=====

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2006 Compared to 2005

Net income available to common stockholders for 2006 was \$26,610,000 (\$1.19 per basic share and \$1.17 per diluted share) compared to \$19,567,000 (\$.91 per basic share and \$.89 per diluted share) for 2005. Diluted EPS for 2006 included a \$.26 per share gain on sales of real estate properties compared to a \$.05 per share gain on sales of properties in 2005.

PNOI increased by \$9,521,000 or 11.0% for 2006 compared to 2005, primarily due to increased average occupancy, acquisitions and developments. Expense to revenue ratios were 28.0% in 2006 compared to 28.5% in 2005. The Company's percentage leased was 96.6% at December 31, 2006 compared to 95.3% at December 31, 2005. Occupancy at the end of 2006 was 95.9% compared to 94.3% at the end of 2005.

The increase in PNOI was primarily attributable to \$3,740,000 from same property growth, \$3,148,000 from newly developed properties and \$2,455,000 from 2005 and 2006 acquisitions. These increases in PNOI were offset by increased depreciation and amortization expense and other costs as discussed below.

The following table presents the components of interest expense for 2006 and 2005:

	Years Ended December 31,
	2006
	(In thousands, except per share amounts)
Average bank borrowings.....	\$ 91,314
Weighted average variable interest rates.....	6.12%
 VARIABLE RATE INTEREST EXPENSE	
Variable rate interest (excluding loan cost amortization).....	5,584
Amortization of bank loan costs.....	355
 Total variable rate interest expense.....	 5,939
 FIXED RATE INTEREST EXPENSE (1)	
Fixed rate interest (excluding loan cost amortization).....	22,549
Amortization of mortgage loan costs.....	464
 Total fixed rate interest expense.....	 23,013
 Total interest.....	 28,952
Less capitalized interest.....	(4,336)
 TOTAL INTEREST EXPENSE.....	 \$ 24,616

(1) Does not include interest expense for discontinued operations. See Note 2 in the Notes to the Consolidated Financial Statements for this information.

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properties are capitalized and offset against interest expense. The Company's weighted average variable interest rates in 2006 were significantly higher than in 2005. The Company closed several new mortgages with ten-year terms at fixed rates and used the proceeds to reduce the Company's exposure to changes in variable bank rates. A summary of the Company's weighted average interest rates on mortgage debt for the past several years is presented below:

MORTGAGE DEBT AS OF:	WEIGHTED AVERAGE INTEREST RATE

December 31, 2002.....	7.34%
December 31, 2003.....	6.92%
December 31, 2004.....	6.74%
December 31, 2005.....	6.31%
December 31, 2006.....	6.21%

The increase in mortgage interest expense in 2006 was primarily due to the new and assumed mortgages on acquired properties detailed in the table below. The Company recorded premiums totaling \$1,282,000 to adjust the mortgage loans assumed to fair market value. These premiums are being amortized over the lives of the assumed mortgages and reduce the contractual interest expense on these loans. The interest rates and amounts shown below for the assumed mortgages represent the fair market rates and values, respectively, at the dates of assumption.

NEW AND ASSUMED MORTGAGES IN 2005 AND 2006	INTEREST RATE	DATE OF ASSUMPTION

Arion Business Park (assumed).....	4.450%	01/20/06
Interstate Distribution Center - Jacksonville (assumed).....	5.640%	03/31/06
Country Club I, Lake Pointe, Techway Southwest II and World Houston 19 & 20.....	4.980%	11/30/05
Oak Creek Distribution Center IV (assumed).....	5.680%	12/01/05
Huntwood and Wiegman Distribution Centers.....	5.680%	08/08/06
Alamo Downs, Arion 1-15 & 17, Rampart I, II & III, Santan 10 and World Houston 16.....	5.970%	10/10/05

Weighted Average/Total Amount.....	5.514%	
	=====	

Mortgage principal payments were \$45,071,000 in 2006 and \$25,880,000 in 2005. Included in these principal payments are repayments of three mortgages totaling \$35,929,000 in 2006 and five mortgages totaling \$18,435,000 in 2005. The details of these mortgages are shown in the following table:

MORTGAGE LOANS REPAYED IN 2005 AND 2006	INTEREST RATE	DATE REPAYED	PRINCIPAL AMOUNT

Westport Commerce Center.....	8.000%	03/31/05	\$ 2,000,000
Lamar Distribution Center II.....	6.900%	06/30/05	1,000,000
Exchange Distribution Center I.....	8.375%	07/01/05	1,000,000
Lake Pointe Business Park.....	8.125%	07/01/05	900,000
JetPort Commerce Park.....	8.125%	09/30/05	2,000,000
Huntwood Distribution Center.....	7.990%	08/08/06	10,000,000
Wiegman Distribution Center.....	7.990%	08/08/06	4,000,000

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Arion Business Park.....	4.450%	10/16/06	20
	-----		-----
Weighted Average/Total Amount.....	6.663%		\$ 54
	=====		=====

Depreciation and amortization for continuing operations increased \$3,651,000 for 2006 compared to 2005. This increase was primarily due to properties acquired and transferred from development during 2005 and 2006. Property acquisitions and transferred developments were \$58 million in 2006 and \$92 million in 2005.

NAREIT has recommended supplemental disclosures concerning straight-line rent, capital expenditures and leasing costs. Straight-lining of rent for continuing operations increased income by \$997,000 in 2006 compared to \$1,941,000 in 2005.

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Capital Expenditures

Capital expenditures for the years ended December 31, 2006 and 2005 were as follows:

	Estimated Useful Life	Years Ended December 31, ----- 2006 2005 -----	
		(In thousands)	
Upgrade on Acquisitions.....	40 yrs	\$ 351	506
Tenant Improvements:			
New Tenants.....	Lease Life	7,240	5,892
New Tenants (first generation) (1)....	Lease Life	688	615
Renewal Tenants.....	Lease Life	731	1,374
Other:			
Building Improvements.....	5-40 yrs	1,818	1,312
Roofs.....	5-15 yrs	1,803	318
Parking Lots.....	3-5 yrs	686	999
Other.....	5 yrs	153	246
		-----	-----
Total capital expenditures.....		\$ 13,470	11,262
		=====	=====

(1) First generation refers to space that has never been occupied under EastGroup's ownership.

Capitalized Leasing Costs

The Company's leasing costs (principally commissions) are capitalized and included in Other Assets. The costs are amortized over the terms of the associated leases and are included in depreciation and amortization expense. Capitalized leasing costs for the years ended December 31, 2006 and 2005 were as follows:

	Estimated Useful Life	Years Ended December 31, ----- 2006 2005 -----	
--	--------------------------	--	--

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(In thousands)			
Development.....	Lease Life	\$ 2,110	1,405
New Tenants.....	Lease Life	2,557	2,497
New Tenants (first generation) (1).....	Lease Life	112	187
Renewal Tenants.....	Lease Life	1,987	1,448
Total capitalized leasing costs....		\$ 6,766	5,537
Amortization of leasing costs (2).....		\$ 4,304	3,863

(1) First generation refers to space that has never been occupied under EastGroup's ownership.

(2) Includes discontinued operations.

Discontinued Operations

The results of operations, including interest expense (if applicable), for the properties sold or held for sale during the periods reported are shown under Discontinued Operations on the consolidated income statements. During 2006 and 2005, the Company sold certain real estate investments and recognized total gains from discontinued operations of \$5,727,000 and \$1,164,000, respectively. See Notes 1(f) and 2 in the Notes to the Consolidated Financial Statements for more information related to discontinued operations and gain on the sales of these properties. The following table presents the components of revenue and expense for the real estate investments sold during 2006 and 2005.

Discontinued Operations	Years Ended December 31,	
	2006	2005
(In thousands)		
Income from real estate operations.....	\$ 2,634	5,165
Expenses from real estate operations.....	(772)	(1,394)
Property net operating income from discontinued operations....	1,862	3,771
Other income.....	-	94
Interest expense.....	-	(64)
Depreciation and amortization.....	(840)	(1,580)
Income from real estate operations.....	1,022	2,221
Gain on sales of real estate investments.....	5,727	1,164
Income from discontinued operations.....	\$ 6,749	3,385

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In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 was effective January 1, 2007. With few exceptions, the Company's 2003 and earlier tax years are closed for examination by U.S. federal, state and local tax authorities. The adoption of FIN 48 in 2007 had an immaterial impact on the Company's overall financial position and results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The provisions of Statement 157, with the exception of nonfinancial assets and liabilities, are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The FASB deferred for one year the Statement's fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. These provisions will be effective for fiscal years beginning after November 15, 2008. EastGroup accounts for its stock-based compensation costs at fair value on the dates of grant as required under SFAS No. 123R. Also, as required under SFAS No. 133, the Company accounts for its interest rate swap cash flow hedge on the Tower Automotive mortgage at fair value. The application of Statement 157 to the Company in 2008 had virtually no impact on the Company's overall financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations, which retains the fundamental requirements in SFAS No. 141 and requires the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree be measured at fair value as of the acquisition date. In addition, Statement 141R requires that any goodwill acquired in the business combination be measured as a residual, and it provides guidance in determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Statement also requires that acquisition-related costs be recognized as expenses in the periods in which the costs are incurred and the services are received. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and may not be applied before that date.

Also in December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which is an amendment of Accounting Research Bulletin (ARB) No. 51. Statement 160 provides guidance for entities that prepare consolidated financial statements that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and may not be applied before that date. The Company anticipates that the adoption of Statement 160 on January 1, 2009, will have an immaterial impact on the Company's financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$86,369,000 for the year ended December 31, 2007. The primary other sources of cash were from bank borrowings, mortgage note proceeds and proceeds from the sales of real estate. The Company distributed \$48,056,000 in common and \$2,624,000 in preferred stock dividends during 2007. Other primary uses of cash were for bank debt repayments, construction and development of properties, purchases of real estate, mortgage

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note repayments and capital improvements at various properties.

Total debt at December 31, 2007 and 2006 is detailed below. The Company's bank credit facilities have certain restrictive covenants, and the Company was in compliance with all of its debt covenants at December 31, 2007 and 2006.

	December 31,	
	2007	2006
	(In thousands)	
Mortgage notes payable - fixed rate.....	\$ 465,360	417,440
Bank notes payable - floating rate.....	135,444	29,066
Total debt.....	\$ 600,804	446,506

During 2007, the Company had a three-year, \$175 million unsecured revolving credit facility with a group of nine banks. This credit facility expired on January 4, 2008, and was replaced by a four-year, \$200 million unsecured revolving credit facility. The Company customarily uses these lines of credit for acquisitions and developments. The interest rate on the \$175 million line of credit was based on the LIBOR index and varied according to total liability to total asset value ratios (as defined in the credit agreement), with an annual facility fee of 20 basis points. During the year, EastGroup's interest rate under this facility was LIBOR plus 95 basis points, except that it could be lowered based upon the competitive bid option in the note. At December 31, 2007, the weighted average interest rate was 5.65% on a balance of \$128,700,000.

EastGroup's \$200 million credit facility is with a group of seven banks and was arranged by PNC Capital Markets LLC. The interest rate on this line of credit is based on the LIBOR index and varies according to total liability to total asset value ratios (as defined in the credit

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agreement), with an annual facility fee of 15-20 basis points. The interest rate on each tranche is usually reset on a monthly basis and is currently LIBOR plus 70 basis points with an annual facility fee of 20 basis points. The line of credit, which matures in January 2012, can be expanded by \$100 million and has an option for a one-year extension. At February 27, 2008, the Company's weighted average interest rate was 4.02% on a balance of \$176 million.

The Company also had a one-year, \$20 million unsecured revolving credit facility with PNC Bank, N.A. that matured on January 4, 2008. Upon maturity, it was replaced by a four-year, \$25 million revolving credit facility. These credit facilities are customarily used for working capital needs. The interest rate on the \$20 million line of credit was based on LIBOR and varied according to total liability to total asset value ratios (as defined in the credit agreement). During 2007, the Company's interest rate was LIBOR plus 110 basis points with no annual facility fee. At December 31, 2007, the interest rate was 5.70% on a balance of \$6,744,000.

EastGroup's \$25 million unsecured revolving credit facility is with PNC Bank, N.A. The interest rate on this working cash line is based on the LIBOR index and varies according to total liability to total asset value ratios. Under this facility, the Company's current interest rate is LIBOR plus 75 basis points with no annual facility fee.

As market conditions permit, EastGroup issues equity, including preferred equity, and/or employs fixed-rate, non-recourse first mortgage debt to replace the short-term bank borrowings.

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On August 8, 2007, the Company closed on a \$75 million, non-recourse first mortgage loan secured by properties containing 1,448,000 square feet. The loan has a fixed interest rate of 5.57%, a ten-year term and an amortization schedule of 20 years. The proceeds of this note were used to reduce variable rate bank borrowings.

Contractual Obligations

EastGroup's fixed, noncancelable obligations as of December 31, 2007 were as follows:

	Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3 Years or More
	(In thousands)			
Fixed Rate Debt Obligations (1).....	\$ 465,360	15,088	59,473	
Interest on Fixed Rate Debt.....	155,752	27,776	49,032	
Variable Rate Debt Obligations (2)...	135,444	135,444	-	
Operating Lease Obligations:				
Office Leases.....	1,630	298	544	
Ground Leases.....	19,807	707	1,414	
Development Obligations (3).....	31,919	31,919	-	
Tenant Improvements (4).....	8,723	8,723	-	
Purchase Obligations (5).....	8,935	8,935	-	
Total.....	\$ 827,570	228,890	110,463	

(1) These amounts are included on the Consolidated Balance Sheet. A portion of this debt is backed by a letter of credit totaling \$9,822,000 at December 31, 2007. This letter of credit is renewable annually and expires on January 15, 2011.

(2) The Company's variable rate debt changes depending on the Company's cash needs and, as such, both the principal amounts and the interest rates are subject to variability. At December 31, 2007, the weighted average interest rate was 5.65% on the variable rate debt due in January 2008. The Company obtained new variable rate debt to replace the expiring facilities in January 2008. See Note 6 in the Notes to the Consolidated Financial Statements.

(3) Represents commitments on properties under development, except for tenant improvement obligations.

(4) Represents tenant improvement allowance obligations.

(5) At December 31, 2007, EastGroup was under contract with United Stationers to purchase two of its existing properties (278,000 square feet) in Jacksonville and Tampa, Florida.

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

INFLATION AND OTHER ECONOMIC CONSIDERATIONS

Most of the Company's leases include scheduled rent increases.

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Additionally, most of the Company's leases require the tenants to pay their pro rata share of operating expenses, including real estate taxes, insurance and common area maintenance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation.

EastGroup's financial results are affected by general economic conditions in the markets in which the Company's properties are located. An economic recession, or other adverse changes in general or local economic conditions, could result in the inability of some of the Company's existing tenants to make lease payments and may impact our ability to renew leases or re-let space as leases expire. In addition, an economic downturn or recession could also lead to an increase in overall vacancy rates or decline in rents we can charge to re-lease properties upon expiration of current leases. In all of these cases, our cash flow would be adversely affected.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to interest rate changes primarily as a result of its lines of credit and long-term debt maturities. This debt is used to maintain liquidity and fund capital expenditures and expansion of the Company's real estate investment portfolio and operations. The Company's objective for interest rate risk management is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company borrows at fixed rates but also has several variable rate bank lines as discussed under Liquidity and Capital Resources. The table below presents the principal payments due and weighted average interest rates for both the fixed rate and variable rate debt.

	2008	2009	2010	2011	2012	Thereafter
Fixed rate debt (1) (in thousands)...	\$ 15,088	45,411	14,062	80,426	57,507	25,000
Weighted average interest rate.....	6.17%	6.57%	5.95%	7.00%	6.69%	6.69%
Variable rate debt (in thousands)...	\$ 135,444	-	-	-	-	-
Weighted average interest rate.....	5.65%	-	-	-	-	-

(1) The fixed rate debt shown above includes the Tower Automotive mortgage, which has a variable interest rate based on the one-month LIBOR. EastGroup has an interest rate swap agreement that fixes the rate at 4.03% for the 8-year term. Interest and related fees result in an annual effective interest rate of 5.30%.

(2) The fair value of the Company's fixed rate debt is estimated based on the quoted market prices for similar issues or by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers.

As the table above incorporates only those exposures that existed as of December 31, 2007, it does not consider those exposures or positions that could arise after that date. The ultimate impact of interest rate fluctuations on the Company will depend on the exposures that arise during the period and interest rates. If the weighted average interest rate on the variable rate bank debt as shown above changes by 10% or approximately 57 basis points, interest expense and cash flows would increase or decrease by approximately \$765,000 annually.

The Company has an interest rate swap agreement to hedge its exposure to the variable interest rate on the Company's \$9,710,000 Tower Automotive Center recourse mortgage, which is summarized in the table below. Under the swap agreement, the Company effectively pays a fixed rate of interest over the term of the agreement without the exchange of the underlying notional amount. This

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swap is designated as a cash flow hedge and is considered to be fully effective in hedging the variable rate risk associated with the Tower mortgage loan. Changes in the fair value of the swap are recognized in accumulated other comprehensive income (loss). The Company does not hold or issue this type of derivative contract for trading or speculative purposes.

Type of Hedge	Current Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair at

	(In thousands)				
Swap	\$9,710	12/31/10	1 month LIBOR	4.03%	

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "intends," "plans," "believes," "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; changes in the supply of and demand for industrial/warehouse properties; increases in interest rate levels; increases in operating costs; the availability of financing; natural disasters 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, acquisitions may not close as scheduled, and those additional factors discussed under "Item 1A. Risk Factors." Although the Company believes that 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Registrant's Consolidated Balance Sheets as of December 31, 2007 and 2006, and its Consolidated Statements of Income, Changes in Stockholders' Equity and Cash Flows and Notes to Consolidated Financial Statements for the years ended December 31, 2007, 2006 and 2005 and the Report of the Independent Registered Public Accounting Firm thereon are included under Item 15 of this report and are incorporated herein by reference. Unaudited quarterly results of operations included in the notes to the consolidated financial statements are also incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

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FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(i) Disclosure Controls and Procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2007, the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

(ii) Internal Control Over Financial Reporting.

(a) Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). EastGroup's Management Report on Internal Control Over Financial Reporting is set forth in Part IV, Item 15 of this Form 10-K on page 31 and is incorporated herein by reference.

(b) Report of the independent registered public accounting firm.

The report of KPMG LLP, the Company's independent registered public accounting firm, on the Company's internal control over financial reporting is set forth in Part IV, Item 15 of this Form 10-K on page 31 and is incorporated herein by reference.

(c) Changes in internal control over financial reporting.

There was no change in the Company's internal control over financial reporting during the Company's fourth fiscal quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information regarding directors is incorporated herein by reference from the section entitled "Proposal One: Election of Directors" in the Company's definitive Proxy Statement ("2008 Proxy Statement") to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for EastGroup's Annual Meeting of Stockholders to be held on May 29, 2008. The 2008 Proxy Statement will be filed within 120 days after the end of the Company's fiscal year ended December 31, 2007.

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The information regarding executive officers is incorporated herein by reference from the section entitled "Executive Officers" in the Company's 2008 Proxy Statement.

The information regarding compliance with Section 16(a) of the Exchange Act is incorporated herein by reference from the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 2008 Proxy Statement.

Information regarding EastGroup's code of business conduct and ethics found in the subsection captioned "Available Information" in Item 1 of Part I hereof is also incorporated herein by reference into this Item 10.

The information regarding the Company's audit committee, its members and the audit committee financial experts is incorporated herein by reference from the subsection entitled "Audit Committee" in the section entitled "Board Committees and Meetings" in the Company's 2008 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION.

The information included under the following captions in the Company's 2008 Proxy Statement is incorporated herein by reference: "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan-Based Awards in 2007," "Outstanding Equity Awards at 2007 Fiscal Year-End," "Option Exercises and Stock Vested in 2007," "Potential Payments upon Termination or Change in Control," "Director Compensation" and "Compensation Committee Interlocks and Insider Participation." The information included under the heading "Compensation Committee Report" in the Company's 2008 Proxy Statement is incorporated herein by reference; however, this information shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference from the sections entitled "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management and Directors" in the Company's 2008 Proxy Statement.

The following table summarizes the Company's equity compensation plan information as of December 31, 2007.

Plan category	Equity Compensation Plan Information		(c) Number of available under equ (excludin in column
	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	
Equity compensation plans approved by security holders	119,406	\$21.39	
Equity compensation plans not approved by security holders	-	-	
Total	119,406	\$21.39	

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

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The information regarding transactions with related parties and director independence is incorporated herein by reference from the sections entitled "Independent Directors" and "Certain Transactions and Relationships" in the Company's 2008 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information regarding principal auditor fees and services is incorporated herein by reference from the section entitled "Independent Registered Public Accounting Firm" in the Company's 2008 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Index to Financial Statements:

- (a) (1) Consolidated Financial Statements:
 - Report of Independent Registered Public Accounting Firm
 - Management Report on Internal Control Over Financial Reporting
 - Report of Independent Registered Public Accounting Firm
 - Consolidated Balance Sheets - December 31, 2007 and 2006
 - Consolidated Statements of Income - Years ended December 31, 2007, 2006 and 2005
 - Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2007, 2006 and 2005
 - Consolidated Statements of Cash Flows - Years ended December 31, 2007, 2006 and 2005
 - Notes to Consolidated Financial Statements
- (2) Consolidated Financial Statement Schedules:
 - Schedule III - Real Estate Properties and Accumulated Depreciation
 - Schedule IV - Mortgage Loans on Real Estate

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted, or the required information is included in the notes to the consolidated financial statements.

- (3) Exhibits required by Item 601 of Regulation S-K:

- (3) Articles of Incorporation and Bylaws

- (a) Articles of Incorporation (incorporated by reference to Appendix B to the Company's Proxy Statement for its Annual Meeting of Stockholders held on June 5, 1997).
- (b) Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed December 13, 2007).
- (c) Articles Supplementary of the Company relating to the Series C Preferred Stock (incorporated by reference to Exhibit A to Exhibit 4 to the Company's Form 8-A filed December 9, 1998).
- (d) Articles Supplementary of the Company relating to the 7.95% Series D Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3 to the Company's Form 8-A filed June 6, 2003).

- (4) Instruments Defining the Rights of Security Holders

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- (a) Rights Agreement dated as of December 3, 1998 between the Company and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 4 to the Company's Form 8-A filed December 9, 1998).
 - (b) First Amendment to Rights Agreement dated December 20, 2004 between the Company and Equiserve Trust Company, N.A., which replaced Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed December 22, 2004).
 - (c) Second Amendment to Rights Agreement dated as of July 23, 2007 between the Company and Wells Fargo Bank, National Association, as Rights Agent (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed July 23, 2007).
- (10) Material Contracts (*Indicates management or compensatory agreement):
- (a) EastGroup Properties, Inc. 1991 Directors Stock Option Plan, as Amended (incorporated by reference to Exhibit B to the Company's Proxy Statement for its Annual Meeting of Stockholders held on December 8, 1994).*
 - (b) EastGroup Properties, Inc. 1994 Management Incentive Plan, as Amended and Restated (incorporated by reference to Appendix A to the Company's Proxy Statement for its Annual Meeting of Stockholders held on June 2, 1999).*
 - (c) Amendment No. 1 to the Amended and Restated 1994 Management Incentive Plan (incorporated by reference to Exhibit 10(c) to the Company's Form 8-K filed January 8, 2007).*
 - (d) EastGroup Properties, Inc. 2000 Directors Stock Option Plan (incorporated by reference to Appendix A to the Company's Proxy Statement for its Annual Meeting of Stockholders held on June 1, 2000).*
 - (e) EastGroup Properties, Inc. 2004 Equity Incentive Plan (incorporated by reference to Appendix D to the Company's Proxy Statement for its Annual Meeting of Stockholders held on May 27, 2004).*
 - (f) Amendment No. 1 to the 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 2006). *

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- (g) Amendment No. 2 to the 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10(d) to the Company's Form 8-K filed January 8, 2007).*
- (h) EastGroup Properties, Inc. 2005 Directors Equity Incentive Plan (incorporated by reference to Appendix B to the Company's Proxy Statement for its Annual Meeting of Stockholders held on June 2, 2005).*
- (i) Amendment No. 1 to the 2005 Directors Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed June 6, 2006).*
- (j) Form of Severance and Change in Control Agreement that the Company has entered into with Leland R. Speed, David H. Hoster II and N. Keith McKey (incorporated by reference to Exhibit 10(a) to the Company's Form 8-K filed January 8, 2007).*
- (k) Form of Severance and Change in Control Agreement that the Company has entered into with John F. Coleman, William D. Petsas, Brent W. Wood and C. Bruce Corkern (incorporated by

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reference to Exhibit 10(b) to the Company's Form 8-K filed January 8, 2007).*

- (l) Compensation Program for Non-Employee Directors (a written description thereof is set forth in Item 1.01 of the Company's Form 8-K filed June 6, 2006).*
- (m) Annual Cash Bonus and 2007 Annual Long-Term Incentive Performance Goals (a written description thereof is set forth in Item 5.02 of the Company's Form 8-K filed June 5, 2007).*
- (n) Multi-Year Long-Term Incentive Performance Goals (a written description thereof is set forth in Item 1.01 of the Company's Form 8-K filed June 6, 2006).*
- (o) Second Amended and Restated Credit Agreement Dated January 4, 2008 among EastGroup Properties, L.P.; EastGroup Properties, Inc.; PNC Bank, National Association, as Administrative Agent; Regions Bank and SunTrust Bank as Co-Syndication Agents; Wells Fargo Bank, National Association as Documentation Agent; and PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner; and the Lenders thereunder (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed January 10, 2008).

(21) Subsidiaries of EastGroup Properties, Inc. (filed herewith).

(23) Consent of KPMG LLP (filed herewith).

(24) Powers of attorney (filed herewith).

(31) Rule 13a-14(a)/15d-14(a) Certifications (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

- (a) David H. Hoster II, Chief Executive Officer
- (b) N. Keith McKey, Chief Financial Officer

(32) Section 1350 Certifications (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

- (a) David H. Hoster II, Chief Executive Officer
- (b) N. Keith McKey, Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND STOCKHOLDERS
EASTGROUP PROPERTIES, INC.:

We have audited the accompanying consolidated balance sheets of EastGroup Properties, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

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principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EastGroup Properties, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 11 to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for share-based payments in accordance with Statement of Financial Accounting Standards No. 123 (Revised 2004).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2008, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Jackson, Mississippi
February 27, 2008

KPMG LLP

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

EastGroup's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, EastGroup conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on EastGroup's evaluation under the framework in Internal Control - Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2007.

Jackson, Mississippi
February 27, 2008

EASTGROUP PROPERTIES, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND STOCKHOLDERS
EASTGROUP PROPERTIES, INC.:

We have audited EastGroup Properties, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on

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our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, EastGroup Properties, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of EastGroup Properties, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 27, 2008, expressed an unqualified opinion on those consolidated financial statements.

Jackson, Mississippi
February 27, 2008

KPMG LLP

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CONSOLIDATED BALANCE SHEETS

ASSETS

		2007
Real estate properties.....	\$	1,114,966
Development.....		152,963

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	1,267,929
Less accumulated depreciation.....	(269,132)
	998,797
Unconsolidated investment.....	2,630
Cash.....	724
Other assets.....	53,682
TOTAL ASSETS.....	\$ 1,055,833
=====	
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES	
Mortgage notes payable.....	\$ 465,360
Notes payable to banks.....	135,444
Accounts payable & accrued expenses.....	34,179
Other liabilities.....	16,153
	651,136

Minority interest in joint ventures.....	2,312

STOCKHOLDERS' EQUITY	
Series C Preferred Shares; \$.0001 par value; 600,000 shares authorized; no shares issued.....	
Series D 7.95% Cumulative Redeemable Preferred Shares and additional paid-in capital; \$.0001 par value; 1,320,000 shares authorized and issued; stated liquidation preference of \$33,000.....	32,326
Common shares; \$.0001 par value; 68,080,000 shares authorized; 23,808,768 shares issued and outstanding at December 31, 2007 and 23,701,275 at December 31, 2006.....	2
Excess shares; \$.0001 par value; 30,000,000 shares authorized; no shares issued.....	-
Additional paid-in capital on common shares.....	467,573
Distributions in excess of earnings.....	(97,460)
Accumulated other comprehensive income (loss).....	(56)
	402,385

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$ 1,055,833
=====	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Yea

2007

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	(In thousands)
REVENUES	
Income from real estate operations.....	\$ 150,638
Other income.....	92
	150,730
EXPENSES	
Expenses from real estate operations.....	41,118
Depreciation and amortization.....	47,908
General and administrative.....	8,295
	97,321
OPERATING INCOME.....	53,409
OTHER INCOME (EXPENSE)	
Equity in earnings of unconsolidated investment.....	285
Gain on sales of land.....	2,602
Interest income.....	306
Interest expense.....	(27,314)
Minority interest in joint ventures.....	(609)
INCOME FROM CONTINUING OPERATIONS.....	28,679
DISCONTINUED OPERATIONS	
Income from real estate operations.....	95
Gain on sales of real estate investments.....	960
INCOME FROM DISCONTINUED OPERATIONS	1,055
NET INCOME.....	29,734
Preferred dividends-Series D.....	2,624
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS.....	\$ 27,110
BASIC PER COMMON SHARE DATA	
Income from continuing operations.....	\$ 1.11
Income from discontinued operations.....	.04
Net income available to common stockholders.....	\$ 1.15
Weighted average shares outstanding.....	23,562
DILUTED PER COMMON SHARE DATA	
Income from continuing operations.....	\$ 1.10
Income from discontinued operations.....	.04
Net income available to common stockholders.....	\$ 1.14
Weighted average shares outstanding.....	23,781

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Dividends declared per common share.....	\$ 2.00
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See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-In Capital	Distribut In Exce Of Earni
	(In thousands, except for share			
BALANCE, DECEMBER 31, 2004.....	\$ 32,326	2	354,671	(35,207
Comprehensive income				
Net income.....	-	-	-	22,191
Net unrealized change in fair value of interest rate swap.....	-	-	-	-
Total comprehensive income.....				
Common dividends declared - \$1.94 per share.....	-	-	-	(42,290
Preferred dividends declared - \$1.9876 per share..	-	-	-	(2,624
Issuance of 860,000 shares of common stock, common stock offering, net of expenses	-	-	31,597	-
Stock-based compensation, net of forfeitures.....	-	-	2,073	-
Issuance of 72,415 shares of common stock, options exercised.....	-	-	1,507	-
Issuance of 8,279 shares of common stock, dividend reinvestment plan.....	-	-	346	-
Other.....	-	-	(39)	-
BALANCE, DECEMBER 31, 2005.....	32,326	2	390,155	(57,930
Comprehensive income				
Net income.....	-	-	-	29,234
Net unrealized change in fair value of interest rate swap.....	-	-	-	-
Total comprehensive income.....				
Common dividends declared - \$1.96 per share.....	-	-	-	(45,695
Preferred dividends declared - \$1.9876 per share..	-	-	-	(2,624
Issuance of 1,437,500 shares of common stock, common stock offering, net of expenses.....	-	-	68,112	-
Stock-based compensation, net of forfeitures.....	-	-	2,943	-
Issuance of 118,269 shares of common stock, options exercised.....	-	-	2,154	-
Issuance of 6,236 shares of common stock, dividend reinvestment plan.....	-	-	305	-
Other.....	-	-	(499)	-
BALANCE, DECEMBER 31, 2006.....	32,326	2	463,170	(77,015
Comprehensive income				
Net income.....	-	-	-	29,734

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Net unrealized change in fair value of interest rate swap.....	-	-	-	-
Total comprehensive income.....				
Common dividends declared - \$2.00 per share.....	-	-	-	(47,555)
Preferred dividends declared - \$1.9876 per share..	-	-	-	(2,624)
Stock-based compensation, net of forfeitures.....	-	-	3,198	
Issuance of 67,150 shares of common stock, options exercised.....	-	-	1,475	
Issuance of 6,281 shares of common stock, dividend reinvestment plan.....	-	-	279	
11,382 shares withheld to satisfy tax withholding obligations in connection with the vesting of restricted stock	-	-	(549)	
BALANCE, DECEMBER 31, 2007.....	\$ 32,326	2	467,573	(97,460)

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

OPERATING ACTIVITIES				
Net income.....	\$	29		
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization from continuing operations.....		47		
Depreciation and amortization from discontinued operations.....				
Minority interest depreciation and amortization.....				
Amortization of mortgage loan premiums.....				
Gain on sales of land and real estate investments.....		(3)		
Stock-based compensation expense.....		2		
Equity in earnings of unconsolidated investment, net of distributions.....				
Changes in operating assets and liabilities:				
Accrued income and other assets.....		3		
Accounts payable, accrued expenses and prepaid rent.....		6		
NET CASH PROVIDED BY OPERATING ACTIVITIES.....		86		
INVESTING ACTIVITIES				
Real estate development.....		(112)		
Purchases of real estate.....		(57)		
Real estate improvements.....		(15)		
Proceeds from sales of land and real estate investments.....		6		
Distributions from unconsolidated investment.....				
Repayments on mortgage loans receivable.....				
Changes in other assets and other liabilities.....		(3)		
NET CASH USED IN INVESTING ACTIVITIES.....		(184)		

FINANCING ACTIVITIES

Proceeds from bank borrowings.....	332
Repayments on bank borrowings.....	(226)
Proceeds from mortgage notes payable.....	75
Principal payments on mortgage notes payable.....	(26)
Debt issuance costs.....	
Distributions paid to stockholders.....	(50)
Proceeds from common stock offerings.....	
Proceeds from exercise of stock options.....	1
Proceeds from dividend reinvestment plan.....	
Other.....	(7)

NET CASH PROVIDED BY FINANCING ACTIVITIES..... 97

INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS.....
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....

CASH AND CASH EQUIVALENTS AT END OF YEAR..... \$

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest, net of amount capitalized of \$6,086, \$4,336 and \$2,485 for 2007, 2006 and 2005, respectively.....	\$ 25
Fair value of debt assumed by the Company in the purchase of real estate.....	
Fair value of common stock awards issued to employees and directors, net of forfeitures.....	1

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007, 2006 AND 2005

(1) SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of EastGroup Properties, Inc., its wholly-owned subsidiaries and its investment in any joint ventures in which the Company has a controlling interest. At December 31, 2005, the Company had a controlling interest in one joint venture: the 80% owned University Business Center. At December 31, 2006 and 2007, the Company had a controlling interest in two joint ventures: the 80% owned University Business Center and the 80% owned Castilian Research Center. The Company records 100% of the joint ventures' assets, liabilities, revenues and expenses with minority 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.

(b) Income Taxes

EastGroup, a Maryland corporation, has qualified as a real estate investment trust (REIT) under Sections 856-860 of the Internal Revenue Code and intends to continue to qualify as such. To maintain its status as a REIT, the Company is required to distribute 90% of its ordinary taxable income to its stockholders. The Company has the option of (i) reinvesting the sales price of

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properties sold through tax-deferred exchanges, allowing for a deferral of capital gains on the sale, (ii) paying out capital gains to the stockholders with no tax to the Company, or (iii) treating the capital gains as having been distributed to the stockholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the stockholders. The Company distributed all of its 2007, 2006 and 2005 taxable income to its stockholders. Accordingly, no provision for income taxes was necessary. The following table summarizes the federal income tax treatment for all distributions by the Company for the years ended 2007, 2006 and 2005.

Federal Income Tax Treatment of Share Distributions

	Years Ended December	
	2007	2006
Common Share Distributions:		
Ordinary income.....	\$ 1.7449	1.3660
Return of capital.....	.1273	-
Unrecaptured Section 1250 long-term capital gain....	.0236	.4160
Other long-term capital gain.....	.1042	.1780
Total Common Distributions.....	\$ 2.0000	1.9600
Series D Preferred Share Distributions:		
Ordinary income.....	\$ 1.8608	1.3852
Unrecaptured Section 1250 long-term capital gain....	.0234	.4220
Other long-term capital gain.....	.1034	.1804
Total Preferred D Distributions.....	\$ 1.9876	1.9876

The Company's income may differ for tax and financial reporting purposes principally because of (1) the timing of the deduction for the provision for possible losses and losses on investments, (2) the timing of the recognition of gains or losses from the sale of investments, (3) different depreciation methods and lives, (4) real estate properties having a different basis for tax and financial reporting purposes, and (5) differences in book and tax allowances and timing for stock-based compensation expense.

(c) Income Recognition

Minimum rental income from real estate operations is recognized on a straight-line basis. The straight-line rent calculation on leases includes the effects of rent concessions and scheduled rent increases, and the calculated straight-line rent income is recognized over the lives of the individual leases. The Company maintains allowances for doubtful accounts receivable, including deferred rent receivable, based upon estimates determined by management. Management specifically analyzes aged receivables, customer credit-worthiness, historical bad debts and current economic trends when evaluating the adequacy of the allowance for doubtful accounts.

Revenue is recognized on payments received from tenants for early terminations after all criteria have been met in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases. Interest income on mortgage loans receivable is recognized based on the accrual method unless a significant uncertainty of collection exists. If a significant uncertainty exists, interest income is recognized as collected.

The Company recognizes gains on sales of real estate in accordance with the principles set forth in SFAS No. 66, Accounting for Sales of Real Estate. Upon

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closing of real estate transactions, the provisions of SFAS No. 66 require consideration for the transfer of rights of ownership to the purchaser, receipt of an adequate cash down payment from the purchaser, adequate continuing investment by the purchaser and no substantial continuing involvement by the Company. If the requirements for recognizing gains have not been met, the sale and related costs are recorded, but the gain is deferred and recognized by a method other than the full accrual method.

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(d) 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 and California, 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 that 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 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 by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Real estate properties held for investment are reported at the lower of the carrying amount or fair value. Depreciation of buildings and other improvements, including personal property, is computed using the straight-line method over estimated useful lives of generally 40 years for buildings and 3 to 15 years for improvements and personal property. Building improvements are capitalized, while maintenance and repair expenses are charged to expense as incurred. Significant renovations and improvements that extend the useful life of or improve the assets are capitalized. Depreciation expense for continuing and discontinued operations was \$39,688,000, \$35,428,000 and \$32,693,000 for 2007, 2006 and 2005, respectively.

(e) Development

During the period when a property is under development, costs associated with development (i.e., land, construction costs, interest expense during construction and lease-up, 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) that are deemed directly or indirectly related to such development activities. As the property becomes occupied, interest, depreciation, property taxes and other costs for the percentage occupied only are expensed as incurred. When the property becomes 80% occupied or one year after completion of the shell construction, whichever comes first, the property is no longer considered a development property and becomes an industrial property. Once the property becomes classified as an industrial property, all interest and property taxes are expensed and depreciation commences on the entire property (excluding the land).

(f) Real Estate Held for Sale

The Company considers a real estate property to be held for sale when it is probable that the property will be sold within a year. A key indicator of probability of sale is whether the buyer has a significant amount of earnest money at risk. Real estate properties that are held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. In accordance with the guidelines established under SFAS No. 144, the results of operations for the operating properties sold or held for sale during the reported periods are shown under Discontinued Operations on the consolidated income statements. Interest expense

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is not generally allocated to the properties that are held for sale or whose operations are included under Discontinued Operations unless the mortgage is required to be paid in full upon the sale of the property.

(g) Derivative Instruments and Hedging Activities

The Company applies SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires that all derivatives be recognized as either assets or liabilities in the balance sheet and measured at fair value. Changes in fair value are to be reported either in earnings or as a component of stockholders' equity depending on the intended use of the derivative and the resulting designation. Entities applying hedge accounting are required to establish at the inception of the hedge the method used to assess the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The Company has an interest rate swap agreement, which is summarized in Note 6.

(h) Cash Equivalents

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

(i) Amortization

Debt origination costs are deferred and amortized using the straight-line method over the term of the loan. Amortization of loan costs for continuing operations was \$911,000, \$819,000 and \$801,000 for 2007, 2006 and 2005, respectively.

Leasing costs are deferred and amortized using the straight-line method over the term of the lease. Leasing costs amortization expense for continuing and discontinued operations was \$5,339,000, \$4,304,000 and \$3,863,000 for 2007, 2006 and 2005, respectively. Amortization expense for in-place lease intangibles is disclosed in Business Combinations and Acquired Intangibles.

(j) Business Combinations and Acquired Intangibles

Upon acquisition of real estate properties, the Company applies the principles of SFAS No. 141, Business Combinations, to determine the allocation of the purchase price among the individual components of both the tangible and intangible assets based on their respective fair values. 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. 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 remaining purchase price is allocated among three categories of intangible assets consisting of 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 which reflects 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

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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 to 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 \$3,031,000, \$2,485,000 and \$2,750,000 for 2007, 2006 and 2005, respectively. Amortization of above and below market leases was immaterial for all periods presented. Projected amortization of in-place lease intangibles for the next five years as of December 31, 2007 is as follows:

Years Ending December 31,	(In thousands)
-----	-----
2008.....	\$ 2,128
2009.....	1,388
2010.....	809
2011.....	443
2012.....	262

Total cost of the properties acquired for 2007 was \$57,246,000, of which \$53,952,000 was allocated to real estate properties. In accordance with SFAS No. 141, intangibles associated with the purchases of real estate were allocated as follows: \$3,661,000 to in-place lease intangibles and \$246,000 to above market leases (both included in Other Assets on the balance sheet) and \$613,000 to below market leases (included in Other Liabilities on the balance sheet). These costs are amortized over the remaining lives of the associated leases in place at the time of acquisition.

The Company acquired one property during 2006 for a cost of \$19,539,000, of which \$18,690,000 was allocated to real estate properties. Intangibles associated with the purchase of real estate were allocated as follows: \$1,095,000 to in-place lease intangibles and \$246,000 to below market leases.

The Company periodically reviews (at least annually) the recoverability of goodwill and (on a quarterly basis) the recoverability of other intangibles for possible impairment. In management's opinion, no material impairment of goodwill and other intangibles existed at December 31, 2007 and 2006.

(k) Stock-Based Compensation

The Company has a management incentive plan that was approved by shareholders and adopted in 2004, which authorizes the issuance of common stock to employees in the form of options, stock appreciation rights, restricted stock, deferred stock units, performance shares, stock bonuses, and stock. Typically, the Company issues new shares to fulfill stock grants or upon the exercise of stock options.

Under the modified prospective application method, the Company continues to recognize compensation cost on a straight-line basis over the service period for awards that precede the adoption of SFAS No. 123 (Revised 2004), Share-Based Payment, on January 1, 2006. (Prior to the adoption of SFAS No. 123R, the Company had adopted the fair value recognition provisions of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, Accounting for Stock-Based Compensation, prospectively to all awards granted, modified, or settled after January 1, 2002.) The cost for performance-based awards after January 1, 2006 is determined 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. This method accelerates the expensing of the award compared to the straight-line method. The cost for market-based awards after January 1, 2006 and awards that only require service are expensed on a straight-line basis over the requisite service periods.

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The total compensation cost for service and performance based awards is based upon the fair market value of the shares on the grant date, adjusted for estimated forfeitures. The grant date fair value for awards that are subject to a market condition are determined using a simulation pricing model developed to specifically accommodate the unique features of the awards.

During the restricted period for awards not subject to contingencies, the Company accrues dividends and holds the certificates for the shares; however, the employee can vote the shares. For shares subject to contingencies, dividends are accrued based upon the number of shares expected to vest. Share certificates and dividends are delivered to the employee as they vest.

(l) Earnings Per Share

Basic earnings per share (EPS) represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. The Company's basic EPS is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding.

Diluted EPS represents the amount of earnings for the period available 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 available to common stockholders by the

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weighted average number of common shares outstanding plus the dilutive effect of nonvested restricted stock and stock options had the options been exercised. The dilutive effect of stock options and their equivalents (such as nonvested restricted stock) was determined using the treasury stock method which assumes exercise of the options as of the beginning of the period or when issued, if later, and assumes proceeds from the exercise of options are used to purchase common stock at the average market price during the period.

(m) Use of Estimates

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

(n) New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 was effective January 1, 2007. With few exceptions, the Company's 2003 and earlier tax years are closed for examination by U.S. federal, state and local tax authorities. The adoption of FIN 48 in 2007 had an immaterial impact on the Company's overall financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The provisions of Statement 157, with the exception of nonfinancial assets and liabilities, are effective for financial

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statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The FASB deferred for one year the Statement's fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. These provisions will be effective for fiscal years beginning after November 15, 2008. EastGroup accounts for its stock-based compensation costs at fair value on the dates of grant as required under SFAS No. 123R. Also, as required under SFAS No. 133, the Company accounts for its interest rate swap cash flow hedge on the Tower Automotive mortgage at fair value. The application of Statement 157 to the Company in 2008 had virtually no impact on the Company's overall financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations, which retains the fundamental requirements in SFAS No. 141 and requires the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree be measured at fair value as of the acquisition date. In addition, Statement 141R requires that any goodwill acquired in the business combination be measured as a residual, and it provides guidance in determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Statement also requires that acquisition-related costs be recognized as expenses in the periods in which the costs are incurred and the services are received. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and may not be applied before that date.

Also in December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which is an amendment of Accounting Research Bulletin (ARB) No. 51. Statement 160 provides guidance for entities that prepare consolidated financial statements that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and may not be applied before that date. The Company anticipates that the adoption of Statement 160 on January 1, 2009, will have an immaterial impact on the Company's financial statements.

(o) Reclassifications

Certain reclassifications have been made in the 2006 and 2005 consolidated financial statements to conform to the 2007 presentation.

(2) REAL ESTATE OWNED

The Company's real estate properties at December 31, 2007 and 2006 were as follows:

	December 31,	
	2007	2006
	(In thousands)	
Real estate properties:		
Land.....	\$ 175,496	154,3
Buildings and building improvements.....	763,980	670,7
Tenant and other improvements.....	175,490	148,7
Development.....	152,963	114,9
	1,267,929	1,088,8
Less accumulated depreciation.....	(269,132)	(231,1
	\$ 998,797	857,7

The Company is currently developing the properties detailed below. Costs incurred include capitalization of interest costs during the period of construction. The interest costs capitalized on real estate properties for 2007 were \$6,086,000 compared to \$4,336,000 for 2006 and \$2,485,000 for 2005.

Total capital investment for development during 2007 was \$112,960,000. The table below is net of \$233,000 of land sold during the year. In addition to the costs incurred for the year as detailed in the table below, development costs included \$4,936,000 for improvements on developments during the 12-month period following transfer to Real Estate Properties.

		Costs Incurred	
	Size	Costs Transferred in 2007 (1)	For the Year Ended 12/31/07
DEVELOPMENT	(Unaudited)		
	(Square feet)		(In thousands)
LEASE-UP			
Beltway Crossing III & IV, Houston, TX.....	110,000	\$ -	1,134
Interstate Commons III, Phoenix, AZ.....	38,000	-	2,475
Oak Creek A & B, Tampa, FL(2).....	35,000	-	2,190
Southridge VII, Orlando, FL.....	92,000	3,312	2,774
SunCoast I, Fort Myers, FL.....	63,000	-	2,449
World Houston 24, Houston, TX.....	93,000	-	4,064
World Houston 25, Houston, TX.....	66,000	-	2,549
Centennial Park, Denver, CO.....	68,000	-	4,747
Beltway Crossing V, Houston, TX.....	83,000	1,077	2,669
Wetmore II, Building A, San Antonio, TX.....	34,000	504	2,297
Total Lease-up.....	682,000	4,893	27,348
UNDER CONSTRUCTION			
40th Avenue Distribution Center, Phoenix, AZ....	89,000	-	4,046
Arion 18, San Antonio, TX.....	20,000	1,236	719
Wetmore II, Buildings B & C, San Antonio, TX....	124,000	1,269	5,111
Oak Creek VI, Tampa, FL.....	89,000	2,412	1,493
Beltway Crossing VI, Houston, TX.....	127,000	1,058	2,465
Southridge VIII, Orlando, FL.....	91,000	2,407	1,633
Wetmore II, Building D, San Antonio, TX.....	124,000	1,382	1,603
Sky Harbor, Phoenix, AZ.....	261,000	6,946	7,062
Southridge XII, Orlando, FL.....	404,000	4,089	11,011
SunCoast III, Fort Myers, FL.....	93,000	4,175	-
Techway SW IV, Houston, TX.....	94,000	1,968	-
World Houston 27, Houston, TX.....	92,000	2,483	-
Total Under Construction.....	1,608,000	29,425	35,143
PROSPECTIVE DEVELOPMENT (PRIMARILY LAND)			
Phoenix, AZ.....	-	(6,946)	431

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Tucson, AZ.....	205,000	-	1,719
Tampa, FL.....	335,000	(2,412)	2,332
Orlando, FL.....	229,000	(9,808)	5,199
West Palm Beach, FL.....	20,000	-	126
Fort Myers, FL.....	659,000	(4,175)	4,326
El Paso, TX.....	251,000	-	-
Houston, TX.....	1,306,000	(6,586)	11,628
San Antonio, TX.....	410,000	(4,391)	3,551
Jackson, MS.....	28,000	-	-
Total Prospective Development.....	3,443,000	(34,318)	29,312
	5,733,000	\$ -	91,803

DEVELOPMENTS COMPLETED AND TRANSFERRED TO REAL ESTATE PROPERTIES DURING 2007

Santan 10 II, Chandler, AZ.....	85,000	\$ -	-
Oak Creek III, Tampa, FL.....	61,000	-	119
Southridge VI, Orlando, FL.....	81,000	-	323
Arion 16, San Antonio, TX.....	64,000	-	1,411
Southridge III, Orlando, FL.....	81,000	-	713
Southridge II, Orlando, FL.....	41,000	-	244
World Houston 15, Houston, TX.....	63,000	-	276
World Houston 23, Houston, TX.....	125,000	-	2,888
Arion 17, San Antonio, TX.....	40,000	-	90
Beltway Crossing II, Houston, TX.....	50,000	-	911
SunCoast II, Fort Myers, FL.....	63,000	-	2,953
Castilian Research Center, Santa Barbara, CA....	37,000	-	3,925
Oak Creek V, Tampa, FL.....	100,000	-	563
World Houston 22, Houston, TX.....	68,000	-	1,572
Total Transferred to Real Estate Properties.....	959,000	\$ -	15,988

(1) Represents costs transferred from Prospective Development (primarily land) to Under Construction (or subsequently to Lease-up) during the period.

(2) These properties were developed for sale.

(3) Represents cumulative costs at the date of transfer.

(4) Included in these costs are development obligations of \$31.9 million and tenant improvement obligations of \$5.4 million on properties under development.

In 2007, one Memphis property, Delp Distribution Center I, was transferred to real estate held for sale and was subsequently sold. Also, during the fourth quarter of 2007, the Company received proceeds of \$3,050,000 for the sale of land in lieu of condemnation at Arion Business Park in San Antonio. During 2006, five Memphis properties-Senator 1, Senator 2, Southeast Crossing, Lamar 1 and Crowfarn - and the Auburn Hills Facility in Michigan were transferred to real estate held for sale and were subsequently sold. The sales of these properties continues to reflect the Company's plan of reducing ownership in Memphis and other noncore markets, as market conditions permit.

Real estate properties that are held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. In accordance with the guidelines established under SFAS No. 144, the results of operations for the properties sold or held for sale during the reported periods are shown under Discontinued

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Operations on the consolidated income statements. No interest expense was allocated to the properties that are held for sale or whose operations are included under Discontinued Operations except for Lamar Distribution Center II, the mortgage of which was required to be paid in full upon the sale of the property in June 2005. Accordingly, Discontinued Operations includes interest expense of \$64,000 for 2005. A summary of gain on sales of real estate investments for the years ended December 31, 2007, 2006 and 2005 follows:

Gain on Sales of Real Estate Investments

Real Estate Properties	Location	Size	Date Sold	Net Sales Price
2007				
Delp Distribution Center I.....	Memphis, TN	152,000 SF	10/11/07	\$ 3,080
Arion Business Park land.....	San Antonio, TX	13.1 Acres	10/11/07	2,890
Deferred gain recognized from previous sales.....				
				\$ 5,970
2006				
Madisonville land.....	Madisonville, KY	1.2 Acres	01/05/06	\$ 804
Senator I & II/Southeast Crossing...	Memphis, TN	534,000 SF	03/09/06	14,870
Dallas land.....	Dallas, TX	0.1 Acre	03/16/06	66
Lamar Distribution Center I.....	Memphis, TN	125,000 SF	06/30/06	2,980
Crowfarn Distribution Center.....	Memphis, TN	106,000 SF	12/14/06	2,650
Auburn Facility.....	Auburn Hills, MI	114,000 SF	12/28/06	17,251
Fort Myers land.....	Fort Myers, FL	0.8 Acre	12/29/06	267
Deferred gain recognized from previous sale.....				
				\$ 38,888
2005				
Delp Distribution Center II.....	Memphis, TN	102,000 SF	02/23/05	\$ 2,085
Lamar Distribution Center II.....	Memphis, TN	151,000 SF	06/30/05	3,725
Sabal land.....	Tampa, FL	1.9 Acres	09/30/05	239
				\$ 6,049

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The following schedule indicates approximate future minimum rental receipts under noncancelable leases for real estate properties by year as of December 31, 2007:

Future Minimum Rental Receipts Under Noncancelable Leases

Years Ending December 31,	(In thousands)
2008.....	\$ 117,443
2009.....	95,288

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2010.....	73,473
2011.....	53,619
2012.....	38,522
Thereafter.....	70,029

Total minimum receipts.....	\$ 448,374
	=====

Ground Leases

As of December 31, 2007, the Company owned two properties in Florida, two properties in Texas and one property in Arizona that are subject to ground leases. These leases have terms of 40 to 50 years, expiration dates of August 2031 to November 2037, and renewal options of 15 to 35 years, except for the one lease in Arizona which is automatically and perpetually renewed annually. Total lease expenditures for the years ended December 31, 2007, 2006 and 2005 were \$708,000, \$707,000 and \$686,000, respectively. Payments are subject to increases at 3 to 10 year intervals based upon the agreed or appraised fair market value of the leased premises on the adjustment date or the Consumer Price Index percentage increase since the base rent date. In December 2007, the Company exercised its option to purchase the land under the ground lease on its Tower property in Mississippi for \$10. The following schedule indicates approximate future minimum lease payments for these properties by year as of December 31, 2007:

Future Minimum Ground Lease Payments

Years Ending December 31,	(In thousands)
-----	-----
2008.....	\$ 707
2009.....	707
2010.....	707
2011.....	707
2012.....	707
Thereafter.....	16,272

Total minimum payments.....	\$ 19,807
	=====

(3) UNCONSOLIDATED INVESTMENT

In November 2004, the Company acquired a 50% undivided tenant-in-common interest in Industry Distribution Center II, a 309,000 square foot warehouse distribution building in the City of Industry (Los Angeles), California. The building was constructed in 1998 and is 100% leased through December 2014 to a single tenant who owns the other 50% interest in the property. This investment is accounted for under the equity method of accounting and had a carrying value of \$2,630,000 at December 31, 2007. At the end of May 2005, EastGroup and the property co-owner closed a non-recourse first mortgage loan secured by Industry Distribution Center II. The \$13.3 million loan has a fixed interest rate of 5.31%, a ten-year term and an amortization schedule of 25 years. The co-owner's 50% share of the loan proceeds (\$6.65 million) were paid to EastGroup and reduced the Company's mortgage loan receivable (see Note 4). EastGroup's 50% share of the loan proceeds (\$6.65 million) reduced the carrying value of the investment. EastGroup's share of this mortgage was \$6,309,000 at December 31, 2007 and \$6,451,000 at December 31, 2006.

(4) MORTGAGE LOANS RECEIVABLE

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In connection with the closing of the investment in Industry Distribution Center II, EastGroup advanced a total of \$7,550,000 in two separate notes to the property co-owner, one for \$6,750,000 and one for \$800,000. As discussed in Note 3, the Company and the property co-owner obtained a permanent fixed-rate mortgage on the investment in Industry Distribution Center II in May 2005. As part of this transaction, the loan proceeds payable to the property co-owner (\$6.65 million) were paid to EastGroup to reduce the \$6.75 million note. Also at the closing of the permanent financing, the co-owner repaid the remaining balance of \$100,000 on this note. The \$800,000 note was repaid in full to EastGroup during the last half of 2005. Mortgage interest income for these notes was \$224,000 for 2005.

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(5) OTHER ASSETS

A summary of the Company's Other Assets follows:

	----- 2 -----
Leasing costs (principally commissions), net of accumulated amortization.....	\$ 1
Straight-line rent receivable, net of allowance for doubtful accounts.....	1
Accounts receivable, net of allowance for doubtful accounts.....	
Acquired in-place lease intangibles, net of accumulated amortization of \$5,308 and \$4,294 for 2007 and 2006, respectively.....	
Goodwill.....	1
Prepaid expenses and other assets.....	----- \$ 5 =====

(6) NOTES PAYABLE TO BANKS

During 2007, the Company had a three-year, \$175 million unsecured revolving credit facility with a group of nine banks. This credit facility expired on January 4, 2008, and was replaced by a four-year, \$200 million unsecured revolving credit facility. The Company customarily uses these lines of credit for acquisitions and developments.

The interest rate on the \$175 million credit facility was based on the LIBOR index and varied according to total liability to total asset value ratios (as defined in the credit agreement), with an annual facility fee of 20 basis points. During the year, EastGroup's interest rate under this line of credit was LIBOR plus 95 basis points, except that it could be lowered based upon the competitive bid option in the note. At December 31, 2007, the weighted average interest rate was 5.65% on a balance of \$128,700,000.

The Company also had a one-year, \$20 million unsecured revolving credit facility with PNC Bank, N.A. that matured on January 4, 2008. Upon maturity, it was replaced by a four-year, \$25 million unsecured revolving credit facility. These facilities are customarily used for working capital needs. The interest rate on the \$20 million line of credit was based on LIBOR and varied according to total liability to total asset value ratios (as defined in the credit agreement). During 2007, the Company's interest rate was LIBOR plus 110 basis points with no annual facility fee. At December 31, 2007, the interest rate was 5.70% on a balance of \$6,744,000.

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Average bank borrowings were \$96,513,000 in 2007 compared to \$91,314,000 in 2006 with weighted average interest rates of 6.36% in 2007 compared to 6.12% in 2006. Weighted average interest rates including amortization of loan costs were 6.73% for 2007 and 6.50% for 2006. Amortization of bank loan costs was \$353,000, \$355,000 and \$357,000 for 2007, 2006 and 2005, respectively.

The Company's bank credit facilities have certain restrictive covenants, and the Company was in compliance with all of its debt covenants at December 31, 2007.

The Company has an interest rate swap agreement to hedge its exposure to the variable interest rate on the Company's \$9,710,000 Tower Automotive Center recourse mortgage (see Note 7). Under the swap agreement, the Company effectively pays a fixed rate of interest over the term of the agreement without the exchange of the underlying notional amount. This swap is designated as a cash flow hedge and is considered to be fully effective in hedging the variable rate risk associated with the Tower mortgage loan. Changes in the fair value of the swap are recognized in accumulated other comprehensive income (loss). The Company does not hold or issue this type of derivative contract for trading or speculative purposes. The interest rate swap agreement is summarized as follows:

Type of Hedge	Current Notional Amount	Maturity Date	Reference Rate	Fixed Rate

(In thousands)				
Swap	\$9,710 (1)	12/31/10	1 month LIBOR	4.03%

(1) This mortgage is backed by a letter of credit totaling \$9,822,000 at December 31, 2007. The letter of credit is renewable annually and expires on January 15, 2011.

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(7) MORTGAGE NOTES PAYABLE

A summary of mortgage notes payable follows:

Property	Rate	Monthly P&I Payment	Maturity Date	Ca R De
World Houston 1 & 2.....	7.770%	\$ 33,019	Repaid	\$
East University I & II, Broadway VI, 55th Avenue and Ethan Allen.....	8.060%	96,974	Repaid	
Dominguez, Kingsview, Walnut, Washington, Industry and Shaw.....	6.800%	358,770	03/01/09	
Oak Creek Distribution Center I.....	8.875%	52,109	09/01/09	
Tower Automotive Center (recourse) (1).....	5.300%	Semiannual	01/15/11	
Interstate I, II & III, Venture, Stemmons Circle, Glenmont I & II, West Loop I & II, Butterfield Trail and Rojas.....	7.250%	325,263	05/01/11	
America Plaza, Central Green and World Houston 3-9.....	7.920%	191,519	05/10/11	
University Business Center (120 & 130 Cremona).....	6.430%	81,856	05/15/12	
University Business Center (125 & 175 Cremona).....	7.980%	88,607	06/01/12	

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Oak Creek Distribution Center IV.....	5.680%	31,253	06/01/12
Airport Distribution, Southpointe, Broadway I, III & IV, Southpark, 51st Avenue, Chestnut, Main Street, Interchange Business Park, North Stemmons I and World Houston 12 & 13.....	6.860%	279,149	09/01/12
Interstate Distribution Center - Jacksonville.....	5.640%	31,645	01/01/13
Broadway V, 35th Avenue, Sunbelt, Beltway I, Lockwood, Northwest Point, Techway Southwest I and World Houston 10, 11 & 14.....	4.750%	259,403	09/05/13
Kyrene Distribution Center I.....	9.000%	11,246	07/01/14
World Houston 17, Kirby, Americas Ten I, Shady Trail, Palm River North I, II & III and Westlake I & II(2).....	5.680%	175,479	10/10/14
Country Club I, Lake Pointe, Techway Southwest II and World Houston 19 & 20.....	4.980%	256,952	12/05/15
Huntwood and Wiegman Distribution Centers.....	5.680%	265,275	09/05/16
Alamo Downs, Arion 1-15 & 17, Rampart I, II & III, Santan 10 and World Houston 16.....	5.970%	557,467	11/05/16
Broadway VI, World Houston 1 & 2, 21 & 23, Arion 16, Ethan Allen, Northpark I-IV, South 55th Avenue, East University I & II and Santan 10 II.....	5.570%	518,885	09/05/17
Blue Heron Distribution Center II.....	5.390%	16,176	02/29/20

(1) The Tower Automotive mortgage has a variable interest rate based on the one-month LIBOR. EastGroup has an interest rate swap agreement that fixes the rate at 4.03% for the 8-year term. Interest and related fees result in an annual effective interest rate of 5.30%. Semiannual principal payments are made on this note; interest is paid monthly. (See Note 6.) The principal amounts of these payments increase incrementally as the loan approaches maturity.

(2) Interest only was paid on this note until November 2006.

The Company's mortgage notes payable have certain restrictive covenants, and the Company was in compliance with all of its debt covenants at December 31, 2007.

The Company currently intends to repay its debt obligations, both in the short- and long-term, through its operating cash flows, borrowings under its lines of credit, proceeds from new mortgage debt and/or proceeds from the issuance of equity instruments. Principal payments due during the next five years as of December 31, 2007 are as follows:

Years Ending December 31,	(In thousands)
2008.....	\$ 15,088
2009.....	45,411
2010.....	14,062
2011.....	80,426
2012.....	57,507

(8) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

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	December 31,	
	2007	2006
	(In thousands)	
Property taxes payable.....	\$ 9,744	8,235
Development costs payable.....	13,022	8,408
Dividends payable.....	2,337	2,839
Other payables and accrued expenses.....	9,076	13,107
	\$ 34,179	32,589

(9) OTHER LIABILITIES

A summary of the Company's Other Liabilities follows:

	December 31,	
	2007	2006
	(In thousands)	
Security deposits.....	\$ 7,529	6,414
Prepaid rent and other deferred income.....	6,911	4,375
Other liabilities.....	1,713	958
	\$ 16,153	11,747

(10) COMMON STOCK ACTIVITY

The following table presents the common stock activity for the three years ended December 31, 2007:

	Years Ended December 31,	
	2007	2006
	Common Shares	
Shares outstanding at beginning of year.....	23,701,275	22,030,682
Common stock offerings.....	-	1,437,500
Stock options exercised.....	67,150	118,269
Dividend reinvestment plan.....	6,281	6,236
Incentive restricted stock granted.....	44,646	118,334
Incentive restricted stock forfeited.....	(2,250)	(3,756)
Director incentive restricted stock granted.....	-	-
Director common stock awarded.....	3,048	3,402
Restricted stock withheld for tax obligations.....	(11,382)	(9,392)
Shares outstanding at end of year.....	23,808,768	23,701,275

Common Stock Issuances

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On September 13, 2006, EastGroup closed on the sale of 1,437,500 shares of its common stock. The net proceeds from the offering of the shares were approximately \$68,112,000 after deducting the underwriting discount and other offering expenses.

On March 31, 2005, EastGroup closed the sale of 800,000 shares of its common stock. On May 2, 2005, the underwriter closed on the exercise of a portion of its over-allotment option and purchased 60,000 additional shares. Total net proceeds from the offering of the shares were \$31,597,000 after deducting the underwriting discount and other offering expenses.

Dividend Reinvestment Plan

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

Common Stock Repurchase Plan

EastGroup's Board of Directors has authorized the repurchase of up to 1,500,000 shares of its outstanding common stock. The shares may be purchased from time to time in the open market or in privately negotiated transactions. Under the common stock repurchase plan, the Company has purchased a total of 827,700 shares for \$14,170,000 (an average of \$17.12 per share) with 672,300 shares still authorized for repurchase. The Company has not repurchased any shares under this plan since 2000.

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Shareholder Rights Plan

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

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

On December 20, 2004, EastGroup amended the Plan to require a committee comprised entirely of independent directors to review and evaluate the Plan to consider whether the maintenance of the Plan continues to be in the interest of the Company, its stockholders and other relevant constituencies of the Company at least every three years. This three-year review was conducted by the Nominating and Corporate Governance Committee in December 2007 and based upon its recommendation, the Board of Directors voted to allow the Plan to terminate on its stated expiration date of December 3, 2008.

If prior to December 3, 2008, any person becomes the beneficial owner of 15% or more of EastGroup's Common Stock and the Board of Directors does not within 10 days thereafter redeem the Rights, or a 9.8% holder is determined by the Board to be an adverse person, each Right not owned by such person or

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related parties will then enable its holder to purchase, at the Right's then-current exercise price, EastGroup Common Stock (or, in certain circumstances as determined by the Board, a combination of cash, property, common stock or other securities) having a value of twice the Right's exercise price.

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

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

(11) STOCK-BASED COMPENSATION

The Company adopted SFAS No. 123 (Revised 2004) (SFAS No. 123R), Share-Based Payment, on January 1, 2006. The rule 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. The Company's adoption of SFAS No. 123R had no material impact on its overall financial position or results of operations. Prior to the adoption of SFAS No. 123R, the Company adopted the fair value recognition provisions of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, Accounting for Stock-Based Compensation, prospectively to all awards granted, modified, or settled after January 1, 2002.

MANAGEMENT INCENTIVE PLAN

The Company has a management incentive plan which was approved by the shareholders and adopted in 2004 (the 2004 Plan), which authorizes the issuance of up to 1,900,000 shares of common stock to employees in the form of options, stock appreciation rights, restricted stock (limited to 570,000 shares), deferred stock units, performance shares, stock bonuses, and stock. Total shares available for grant were 1,715,523; 1,751,796; and 1,865,572 at December 31, 2007, 2006 and 2005, respectively. Typically, the Company issues new shares to fulfill stock grants or upon the exercise of stock options.

Stock-based compensation was \$3,043,000, \$2,788,000 and \$2,021,000 for 2007, 2006 and 2005, respectively, of which \$978,000, \$768,000 and \$455,000 were capitalized as part of the Company's development costs for the respective years.

Restricted Stock

The purpose of the restricted stock plan is to act as a retention device since it allows participants to benefit from dividends on shares as well as potential stock appreciation. Vesting occurs from 2 1/2 years to nine years from the date of grant for awards subject to service only. Restricted stock is granted to executive officers subject to the satisfaction of annual performance goals and multi-year market conditions as determined by the Compensation Committee with vesting over one to seven years from the grant date. Restricted stock is granted to non-executive officers and other employees subject only to continued service. Under the modified prospective application method, the Company continues to recognize compensation cost on a straight-line basis over the service period for awards that precede the adoption of SFAS No. 123R. The cost for performance-based awards after January 1, 2006 is amortized 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. This method

