EASTGROUP PROPERTIES INC
Form 10-K
February 28, 2007

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006 COMMISSION FILE NUMBER 1-07094

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

MARYLAND (State or other jurisdiction of incorporation or organization)	13-2711135 (I.R.S. Employer Identification No.)
300 ONE JACKSON PLACE 188 EAST CAPITOL STREET JACKSON, MISSISSIPPI (Address of principal executive offices)	39201 (Zip code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
SHARES OF COMMON STOCK, $.0001 PAR VALUE,
SHARES OF SERIES D 7.95% CUMULATIVE REDEEMABLE PREFERRED STOCK, $.0001 PAR VALUE
NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES (x) NO ( )

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES ( ) NO (x)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer (x) Accelerated Filer ( ) Non-accelerated Filer ( )

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: $999,167,000.

The number of shares of common stock, $.0001 par value, outstanding as of February 26, 2007 was 23,704,414.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2007 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 has regional offices in Phoenix, Orlando and Houston and property management offices in Jacksonville, Tampa and Fort Lauderdale. Offices at these locations allow the Company to directly manage all of its Florida, Houston, Arizona and Mississippi properties, which together account for 57% of the Company's total portfolio on a square foot basis. In addition, the Company currently provides property administration (accounting of operations) for 100% of its total portfolio. The regional offices in Arizona, Florida and Texas also provide development capability and oversight in those states. As of February 26, 2007, 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 warehouse distribution space.

During 2006, EastGroup expanded its investments principally through the transfer of nine properties (615,000 square feet) from development to real estate properties, by the acquisition of one property (four buildings) comprised of 322,000 square feet of warehouse space and through the acquisition of 95 acres of land for future development. The Company sold six properties (879,000 square feet) and three small parcels of land (2.1 acres in total) during 2006. The Company's current portfolio includes 22.1 million square feet of real estate properties with an additional 1,458,000 square feet under development.

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 in connection with an acquisition of real estate in certain situations.

EastGroup does not presently intend to invest in the securities of other issuers for the purpose of exercising control.

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 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:

- population and demographic trends;
- employment and personal income trends;
- income tax laws;
- changes in interest rates and availability and costs of financing;
- 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
- 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. In addition, our portfolio of industrial properties faces competition from other properties within each submarket where they are located.

We are subject to significant regulation that inhibits our activities. Local zoning and 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, 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

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.

Our investment in property development may be more costly than we anticipate. 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:

- the availability of favorable financing alternatives;
- construction costs exceeding original estimates due to rising interest rates and increases in the costs of materials and labor;
- construction and lease-up delays resulting in increased debt service, fixed expenses and construction costs;
- expenditure of funds and devotion of management's time to projects that we do not complete;
- 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
- 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 acquisition activities and their success are subject to the following risks:

- when we are able to locate a desired property, competition from other real estate investors may significantly increase the purchase price;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates;

- 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;
- 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
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, 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. However, we would be required to bear all losses that are not adequately covered by insurance. In addition, there are certain losses that are not generally insured because it is not economically feasible to insure against them, including losses due to riots or acts of war. 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. Moreover, as a number of our properties are located in California, an area known for seismic activity, we may incur material losses in the future in excess of insurance proceeds from our earthquake insurance. While we presently carry earthquake insurance on certain of our properties, the amount of our insurance coverage may not be sufficient to fully cover losses from earthquakes. In addition, we may discontinue earthquake or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss.

We face risks due to lack of geographic diversity. Substantially all of our properties are located in the Sunbelt region of the United States with an emphasis in the states of California, Florida, Texas and Arizona. 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.

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 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 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.

Fluctuations in interest rates may adversely affect our operations and value of our stock. As of December 31, 2006, we had approximately $29 million of variable interest rate debt. As of December 31, 2006, the weighted average interest rate on our variable rate debt was 5.98%. 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 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.

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.

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.

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.

ITEM 2. PROPERTIES.

EastGroup owned 181 industrial properties and one office building at December 31, 2006. 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 over 29% of its total portfolio. The Company's focus is the ownership of business distribution space (77% of the total portfolio) with the remainder in bulk distribution space (19%) and business service space (4%). 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, 2006, 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

	Calendar 2006			Calendar 200	
Quarter	High	Low	Distributions	High	Low
First	$48.60	44.12	$ .490	$39.90	35.60
Second	47.50	42.54	.490	43.50	36.21
Third	51.29	45.23	.490	45.74	39.83
Fourth	56.50	48.95	.490	46.95	40.00
			$1.960		

As of February 26, 2007, there were approximately 925 holders of record of the Company's 23,704,414 outstanding shares of common stock. The Company distributed all of its 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 2006 and 2005.

Federal Income Tax Treatment of Share Distributions

	Years Ended December 31,	
	2006	2005
Common Share Distributions:		
Ordinary Income....................................	$1.3660	1.4816
Return of capital..................................	-	.3724
Unrecaptured Section 1250 long-term capital gain.....	.4160	.0828
Other long-term capital gain........................	.1780	.0032
Total Common Distributions............................	$1.9600	1.9400

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 Shares Purchased as Part of Publicly Announced Plans or Programs
10/01/06 thru 10/31/06	-	-	-
11/01/06 thru 11/30/06	-	-	-
12/01/06 thru 12/31/06	8,821 (1)	$53.56	-
Total	8,821	$53.56	-

(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 shares under this plan since 2000.

Performance Graph

The following graph compares, over the five years ended December 31, 2006, 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,					
	2001	2002	2003	2004	2005	2
EastGroup	100.00	118.95	161.56	201.89	249.11	30
NAREIT Equity	100.00	103.82	142.37	187.33	210.11	28
S&P 500	100.00	76.63	96.84	105.55	108.72	12

Assumes that the value of the investment in shares of the EastGroup's Common Stock and each index was $100 on December 31, 2001 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 E	
	2006	2005
	(In thousands, e	
OPERATING DATA		
Revenues		
Income from real estate operations	$ 133,144	120,710
Equity in earnings of unconsolidated investment	287	450
Other income	182	413
	133,613	121,573
Expenses		
Expenses from real estate operations	37,354	34,496
Depreciation and amortization	41,525	37,871
General and administrative	7,401	6,874
Minority interest in joint ventures	600	484
	86,880	79,725
Operating Income	46,733	41,848
Other Income (Expense)		
Gain on sale of nonoperating real estate	123	-
Gain on sale of real estate investments	-	-
Gain on securities	-	-
Interest income	142	247
Interest expense	(24,616)	(23,444)
Income from Continuing Operations	22,382	18,651
Discontinued operations		
Income from real estate operations	1,125	2,376
Gain (loss) on sale of real estate investments	5,727	1,164
Income from discontinued operations	6,852	3,540
Net income	29,234	22,191
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....................	$ 26,610	19,567
BASIC PER COMMON SHARE DATA		
Income from continuing operations............................	$ .88	.74
Income from discontinued operations..........................	.31	.17
Net income available to common stockholders..................	$ 1.19	.91
Weighted average shares outstanding..........................	22,372	21,567
DILUTED PER COMMON SHARE DATA		
Income from continuing operations............................	$ .87	.73
Income from discontinued operations..........................	.30	.16
Net income available to common stockholders..................	$ 1.17	.89
Weighted average shares outstanding..........................	22,692	21,892
OTHER PER SHARE DATA		
Book value (at end of year)..................................	$ 16.28	15.06
Common distributions declared................................	1.96	1.94
Common distributions paid....................................	1.96	1.94
BALANCE SHEET DATA (AT END OF YEAR)		
Real estate investments, at cost	$1,091,491	1,024,459
Real estate investments, net of accumulated depreciation......	860,385	818,032
Total assets...	911,787	863,538
Mortgage, bond and bank loans payable........................	446,506	463,725
Total liabilities..	490,842	496,972
Minority interest in joint ventures..........................	2,148	1,702
Total stockholders' equity...................................	418,797	364,864

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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 2006, leases on 4,158,000 square feet (19.1%) of EastGroup's total square footage of 21,808,000 expired, and the Company was successful in renewing or re-leasing 85% of that total. In addition, EastGroup leased 1,229,000 square feet of other vacant space during the year. During 2006, average rental rates on new and renewal leases increased by 11.2%.

EastGroup's total leased percentage increased to 96.6% at December 31, 2006 from 95.3% at December 31, 2005. Leases scheduled to expire in 2007 were 15.2%

of the portfolio on a square foot basis at December 31, 2006, and this figure was reduced to 13.2% as of February 26, 2007. Property net operating income from same properties increased 4.7% for 2006 as compared to 2005. The fourth quarter of 2006 was EastGroup's fourteenth consecutive quarter of positive same property comparisons.

The Company generates new sources of leasing revenue through its acquisition and development programs. During 2006, EastGroup purchased 95.1 acres of land for development in four markets and one property (322,000 square feet in four buildings) in Charlotte, North Carolina for a total of approximately $41 million. Charlotte is a new market for EastGroup and is the third new market for the Company over the past three years. In January 2007, EastGroup purchased three additional buildings (181,000 square feet) in Charlotte for $9.3 million and a 60,000 square foot building in Dallas for $2.9 million and, in February 2007, the Company purchased two buildings (231,000 square feet) in San Antonio for $10.6 million.

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 2006, the Company transferred nine properties (615,000 square feet) with aggregate costs of $38.2 million at the date of transfer from development to real estate properties. Eight of the nine properties are 100% leased and one is 54% leased.

The Company sold six properties (five in Memphis and one in Michigan--noncore markets) and several parcels of land during 2006 for a net sales price of $38.9 million, generating combined gains of $6.3 million, of which approximately $500,000 was deferred. These dispositions represented opportunities to recycle capital into acquisitions and development with greater upside potential.

The Company primarily funds its acquisition and development programs through a $175 million line of credit (as discussed in Liquidity and Capital Resources). As market conditions permit, EastGroup issues equity, including preferred equity, and/or employs fixed-rate, nonrecourse first mortgage debt to replace the short-term bank borrowings.

In September 2006, the Company closed on the sale of 1,437,500 shares of its common stock. The net proceeds from the offering of the shares were approximately $68.1 million after deducting the underwriting discount and other offering expenses. EastGroup used the proceeds to repay borrowings under its credit facilities.

In August 2006, the Company closed on a $38 million, nonrecourse first mortgage loan secured by properties containing 778,000 square feet. The loan has a fixed interest rate of 5.68%, a ten-year term and an amortization schedule of 20 years. The proceeds of the note were used to repay the maturing mortgages on these properties of $15.4 million and to reduce floating rate bank borrowings.

In October 2006, the Company closed on a $78 million, nonrecourse first mortgage loan secured by properties containing 1,316,000 square feet. The loan has a fixed interest rate of 5.97%, a ten-year term and an amortization schedule of 20 years. The proceeds of the note were used to repay a maturing $20.5 million mortgage and to reduce floating rate bank borrowings.

Tower Automotive, Inc. (Tower) filed for Chapter 11 reorganization in early 2005. Tower, which leases 210,000 square feet from EastGroup under a lease expiring in December 2010, is current with their rental payments to EastGroup through February 2007. EastGroup is obligated under a recourse mortgage loan on the property for $10,040,000 as of December 31, 2006. Property net operating income for 2006 was $1,372,000 for the property occupied by Tower. Rental income due for 2007 is $1,389,000 with estimated property net operating income for 2007 of $1,369,000.

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 NAREIT's 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 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 En
	2006
	(In
Income from real estate operations..	$ 133,144
Expenses from real estate operations..	(37,354)

PROPERTY NET OPERATING INCOME	95,790
Equity in earnings of unconsolidated investment (before depreciation)	419
Income from discontinued operations (before depreciation and amortization)	1,817
Interest income	142
Other income	182
Interest expense	(24,616)
General and administrative expense	(7,401)
Minority interest in earnings (before depreciation and amortization)	(751)
Gain on sale of nondepreciable real estate investments	791
Dividends on Series D preferred shares	(2,624)
FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	63,749
Depreciation and amortization from continuing operations	(41,525)
Depreciation and amortization from discontinued operations	(692)
Depreciation from unconsolidated investment	(132)
Minority interest depreciation and amortization	151
Gain on sale of depreciable real estate investments	5,059
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	26,610
Dividends on preferred shares	2,624
NET INCOME	$ 29,234
Net income available to common stockholders per diluted share	$ 1.17
Funds from operations available to common stockholders per diluted share	2.81
Diluted shares for earnings per share and funds from operations	22,692

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

- The FFO change per share represents the increase or decrease in FFO per share from the same quarter in the current year compared to the prior year. FFO per share for the fourth quarter of 2006 was $.72 per share compared with $.68 per share for the same period of 2005, an increase of 5.9%. The increase in FFO was mainly due to a PNOI increase of $2,588,000, or 11.7%. The increase in PNOI was primarily attributable to $1,327,000 from same property growth, $917,000 from newly developed properties and $253,000 from 2005 and 2006 acquisitions. The fourth quarter of 2006 was the tenth consecutive quarter of increased FFO as compared to the previous year's quarter.

- For the year 2006, FFO was $2.81 per share compared with $2.64 per share for 2005, an increase of 6.4%. The increase in FFO for 2006 was mainly due to a PNOI increase of $9,576,000, or 11.1%. The increase in PNOI was primarily attributable to $3,795,000 from same property growth, $3,148,000 from newly developed properties and $2,455,000 from 2005 and 2006 acquisitions.

- 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 6.0% for the fourth quarter. The fourth quarter of 2006 was the fourteenth consecutive quarter of improved same property operations. For the year 2006, PNOI from same properties increased 4.7%.

- 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, 2006 was 95.9%, the highest level since the third quarter of 2000, and an increase from September 30, 2006 of 95.6%, June 30, 2006 of 94.0% and March 31, 2006 of 93.8%. Occupancy has ranged from 91.0% to 95.9% for fifteen consecutive quarters.

- 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 averaged 10.8% for the fourth quarter of 2006 and 11.2% for the year.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Real Estate Properties

The Company 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 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 2006, 2005 and 2004 taxable income to its stockholders. Accordingly, no provision for income taxes was necessary.

FINANCIAL CONDITION

EastGroup's assets were $911,787,000 at December 31, 2006, an increase of $48,249,000 from December 31, 2005. Liabilities decreased $6,130,000 to $490,842,000 and stockholders' equity increased $53,933,000 to $418,797,000 during the same period. The paragraphs that follow explain these changes in detail.

ASSETS

Real Estate Properties

Real estate properties increased $30,325,000 during the year ended December 31, 2006 primarily due to the transfer of nine properties from development with total costs of $38,242,000, as detailed below. In addition, the Company purchased NorthPark Business Park (322,000 square feet) in Charlotte, a new market for EastGroup, for $19,539,000. The total purchase was allocated as follows: $18,690,000 to real estate properties, $1,095,000 to in-place lease intangibles (included in Other Assets on the consolidated balance sheet) and $246,000 to below market leases (included in Other Liabilities on the consolidated balance sheet). These increases were offset by the transfer of six

properties with costs of $42,232,000 to real estate held for sale, which were subsequently sold.

Real Estate Properties Transferred from Development in 2006	Location	Size	Date
		(Square feet)	
Southridge V..........................	Orlando, FL	70,000	
Executive Airport CC II...............	Fort Lauderdale, FL	55,000	
Palm River South II...................	Tampa, FL	82,000	
Southridge I..........................	Orlando, FL	41,000	
Southridge IV.........................	Orlando, FL	70,000	
Sunport Center VI.....................	Orlando, FL	63,000	
Techway SW III........................	Houston, TX	100,000	
Arion 14..............................	San Antonio, TX	66,000	
World Houston 21......................	Houston, TX	68,000	
Total Developments Transferred......		615,000	

The Company made capital improvements of $13,374,000 on existing and acquired properties (included in the Capital Expenditures table under Results of Operations). Also, the Company incurred costs of $2,549,000 on development properties that had transferred 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.

Development

The investment in development at December 31, 2006 was $114,986,000 compared to $77,483,000 at December 31, 2005. Total capital invested for development during 2006 was $77,666,000. In addition to the costs of $75,117,000 incurred for the year as detailed in the development activity table, the Company incurred costs of $2,549,000 on developments during the 12-month period following transfer to real estate properties.

During 2006, EastGroup acquired 95 acres of development land as indicated below. Costs associated with these land acquisitions are all included in the respective markets in the development activity table.

Development Land Acquired in 2006	Location	Size	Date A
Sky Harbor Business Park Land............	Phoenix, AZ	17.7 Acres	06/
Wetmore Land.............................	San Antonio, TX	15.5 Acres	07/
Wetmore Land.............................	San Antonio, TX	2.0 Acres	09/
World Houston Land.......................	Houston, TX	5.1 Acres	10/
SunCoast Commerce Park II Land...........	Fort Myers, FL	35.0 Acres	12/
SunCoast Commerce Park III Land..........	Fort Myers, FL	19.8 Acres	12/
Total Development Land Acquisition....		95.1 Acres	

In the fourth quarter of 2005, 55 Castilian, LLC, a wholly-owned subsidiary of EastGroup, acquired Castilian Research Center in Goleta (Santa Barbara), California for $4,129,000. As originally contemplated, during the second quarter of 2006, 55 Castilian sold (at cost) a 20% ownership interest to an entity controlled by its co-developer partner who is also a 20% co-owner of the

Company's University Business Center complex in the same submarket. The partner contributed $350,000 and EastGroup contributed $1,400,000 as capital to 55 Castilian. EastGroup will loan 55 Castilian the remaining acquisition and construction funds. Castilian, which contains 35,000 square feet and is currently vacant, is being redeveloped into a state-of-the-art incubator R&D facility with a projected additional investment of approximately $3.2 million for a total investment of over $7 million.

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The Company transferred nine developments to real estate properties during 2006 with a total investment of $38,242,000 as of the date of transfer. The Company transferred into development two parcels of land formerly held for sale with costs of $773,000.

DEVELOPMENT	Size	Costs Incurr	
		Costs Transferred in 2006(1)	For th Year End 12/31/0
	(Square feet)		(In
LEASE-UP			
Santan 10 II, Chandler, AZ......................	85,000	$ -	2,628
Southridge II, Orlando, FL......................	41,000	-	2,090
World Houston 15, Houston, TX...................	63,000	-	2,099
Oak Creek III, Tampa, FL.......................	61,000	-	2,517
Arion 17, San Antonio, TX.......................	40,000	-	1,610
Southridge VI, Orlando, FL......................	81,000	2,580	2,391
Oak Creek V, Tampa, FL.........................	100,000	1,389	3,444
Total Lease-up..................................	471,000	3,969	16,779
UNDER CONSTRUCTION			
Southridge III, Orlando, FL.....................	81,000	1,532	2,921
Beltway Crossing II, III & IV, Houston, TX.......	160,000	2,388	4,765
Castilian Research Center, Santa Barbara, CA.....	35,000	-	731
World Houston 22, Houston, TX...................	68,000	1,926	1,144
SunCoast I & II, Fort Myers, FL.................	126,000	3,247	2,031
World Houston 23, Houston, TX...................	125,000	1,274	3,223
Arion 16, San Antonio, TX.......................	64,000	758	1,626
40th Avenue Distribution Center, Phoenix, AZ.....	89,000	1,101	-
Interstate Commons III, Phoenix, AZ.............	38,000	573	-
Oak Creek A & B, Tampa, FL(3)...................	35,000	751	-
World Houston 24, Houston, TX...................	93,000	1,101	-
World Houston 25, Houston, TX...................	66,000	645	-
Total Under Construction........................	980,000	15,296	16,441
PROSPECTIVE DEVELOPMENT (PRIMARILY LAND)			
Phoenix, AZ.....................................	271,000	(1,674)	7,028
Tucson, AZ......................................	70,000	-	-
Tampa, FL.......................................	329,000	(2,140)	1,926
Orlando, FL.....................................	652,000	(4,112)	3,898
West Palm Beach, FL.............................	20,000	-	131
Fort Myers, FL..................................	752,000	(3,247)	13,979
El Paso, TX.....................................	251,000	-	-

Houston, TX....................................	943,000	(6,561)	4,554
San Antonio, TX................................	303,000	(758)	3,164
Jackson, MS....................................	28,000	-	-
Total Prospective Development.....................	3,619,000	(18,492)	34,680
	5,070,000	$ 773	67,900
DEVELOPMENTS COMPLETED AND TRANSFERRED TO REAL ESTATE PROPERTIES DURING 2006			
Southridge V, Orlando, FL.......................	70,000	$ -	(214)
Executive Airport CC II, Fort Lauderdale, FL.....	55,000	-	38
Palm River South II, Tampa, FL..................	82,000	-	862
Southridge I, Orlando, FL.......................	41,000	-	735
Southridge IV, Orlando, FL......................	70,000	-	1,297
Sunport Center VI, Orlando, FL..................	63,000	-	604
Techway SW III, Houston, TX.....................	100,000	-	248
Arion 14, San Antonio, TX.......................	66,000	-	1,876
World Houston 21, Houston, TX...................	68,000	-	1,771
Total Transferred to Real Estate Properties........	615,000	$ -	7,217

(1) Represents costs transferred from Prospective Development (principally land) to Under Construction during the year and $773,000 that was transferred from the category "held for sale."

(2) The information provided above includes forward-looking data based on current construction schedules, the status of lease negotiations with potential tenants and other relevant factors currently available to the Company. There can be no assurance that any of these factors will not change or that any change will not affect the accuracy of such forward-looking data. Among the factors that could affect the accuracy of the forward-looking statements are weather or other natural occurrence, default or other failure of performance by contractors, increases in the price of construction materials or the availability of such materials, failure to obtain necessary permits or approvals from government entities, changes in local and/or national economic conditions, increased competition for tenants or other occurrences that could depress rental rates, and other factors not within the control of the Company.
(3) These buildings are being developed for sale.
(4) Represents cumulative costs at the date of transfer.

Accumulated depreciation on real estate properties increased $24,679,000 primarily due to depreciation expense of $35,428,000 on real estate properties, offset by accumulated depreciation of $10,630,000 on six properties transferred to real estate held for sale in 2006 as discussed below.

Real estate held for sale, consisting of two parcels of land in Houston, Texas, was $773,000 at December 31, 2005. As a result of a change in plans by management, this land was transferred into the development program 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 during 2006 and were subsequently sold. The sale of these properties continues to reflect the Company's plan of reducing ownership in Memphis and other noncore markets, as market conditions permit. See Results of Operations and Note 2 in the Notes to the Consolidated Financial Statements for a summary of the gain on the sale of these properties.

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

LIABILITIES

Mortgage notes payable increased $70,479,000 during the year ended December 31, 2006. In August 2006, the Company closed a new $38,000,000, nonrecourse first mortgage loan secured by two properties. The loan has a fixed interest rate of 5.68%, a ten-year term and an amortization schedule of 20 years. The proceeds of this note were used to repay maturing mortgages of approximately $15,429,000 and to reduce variable rate bank borrowings. In October 2006, the Company closed on a $78,000,000, nonrecourse first mortgage loan secured by properties containing 1,316,000 square feet. The loan has a fixed interest rate of 5.97%, a ten-year term and an amortization schedule of 20 years. The proceeds of the note were used to repay a maturing $20,500,000 mortgage and to reduce floating rate bank borrowings. Other decreases were regularly scheduled principal payments of $9,142,000 and mortgage loan premium amortization of $403,000.

Notes payable to banks decreased $87,698,000 as a result of repayments of $279,387,000 exceeding advances of $191,689,000. 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.

STOCKHOLDERS' EQUITY

Additional paid-in capital on common shares increased $73,015,000 during 2006. On September 13, 2006, EastGroup closed the sale of 1,437,500 shares of its common stock. Total net proceeds from the offering of the shares were approximately $68,112,000 after deducting the underwriting discount and other offering expenses. Additionally, see Note 10 in the Notes to the Consolidated Financial Statements for information related to the changes in additional paid-in capital resulting from stock-based compensation.

Distributions in excess of earnings increased $19,085,000 as a result of dividends on common and preferred stock of $48,319,000 exceeding net income for financial reporting purposes of $29,234,000.

RESULTS OF OPERATIONS

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 earnings per share (EPS) for 2006 included a $.26 per share gain on the sale of real estate properties compared to a $.05 per share gain on the sale of properties in 2005.

PNOI increased by $9,576,000 or 11.1% for 2006 compared to 2005, primarily due to increased average occupancy, acquisitions and developments. Expense to revenue ratios were 28.1% in 2006 compared to 28.6% 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 $3,795,000 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.

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

Years Ended December 3

	2006	2005
	(In thousands, except r	
Average bank borrowings..	$ 91,314	100,5
Weighted average variable interest rates.....................	6.12%	4.5
VARIABLE RATE INTEREST EXPENSE		
Variable rate interest (excluding loan cost amortization).....	5,584	4,5
Amortization of bank loan costs..............................	355	3
Total variable rate interest expense.........................	5,939	4,9
FIXED RATE INTEREST EXPENSE (1)		
Fixed rate interest (excluding loan cost amortization)........	22,549	20,5
Amortization of mortgage loan costs...........................	464	4
Total fixed rate interest expense.............................	23,013	21,0
Total interest..	28,952	25,9
Less capitalized interest.....................................	(4,336)	(2,4
TOTAL INTEREST EXPENSE..	$ 24,616	23,4

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

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 2006 were significantly higher than in 2005. The Company has 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	INTEREST RATE	DATE
Arion Business Park (assumed)	4.450%	01/21/0
Interstate Distribution Center - Jacksonville (assumed)	5.640%	03/31/0
Chamberlain, Lake Pointe, Techway Southwest II and World Houston 19 & 20	4.980%	11/30/0
Oak Creek Distribution Center IV (assumed)	5.680%	12/07/0
Huntwood and Wiegman Distribution Centers	5.680%	08/08/0
Alamo Downs, Arion 1-15 & 17, Rampart I, II & III, Santan 10 and World Houston 16	5.970%	10/17/0
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 REPAID IN 2006	INTEREST RATE	DATE REPAID	PA
Huntwood Distribution Center	7.990%	08/08/06	$
Wiegman Distribution Center	7.990%	08/08/06	
Arion Business Park	4.450%	10/16/06	
Weighted Average/Total Amount	5.970%		$
MORTGAGE LOANS REPAID IN 2005			
Westport Commerce Center	8.000%	03/31/05	$
Lamar Distribution Center II	6.900%	06/30/05	
Exchange Distribution Center I	8.375%	07/01/05	
Lake Pointe Business Park	8.125%	07/01/05	
JetPort Commerce Park	8.125%	09/30/05	
Weighted Average/Total Amount	8.014%		$

Depreciation and amortization for continuing operations increased $3,654,000 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 $1,032,000 in 2006 compared to $1,943,000 in 2005.

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
		(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. The following

table presents the components of revenue and expense for the properties sold during 2006 and 2005. During 2006, the Company sold six properties and three parcels of land (one parcel was nonoperating and thus is not in discontinued operations) and recognized total gains from discontinued operations of $5,727,000. In 2005, the Company sold two properties and one parcel of land and recognized total gains of $1,164,000. 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 sale of these properties.

Discontinued Operations	Years Ended December 31, 2006	2005
	(In thousands)	
Income from real estate operations	$ 2,452	5,056
Expenses from real estate operations	(636)	(1,275)
Property net operating income from discontinued operations	1,816	3,781
Other income	1	94
Interest expense	-	(64)
Depreciation and amortization	(692)	(1,435)
Income from real estate operations	1,125	2,376
Gain on sale of real estate investments	5,727	1,164
Income from discontinued operations	$ 6,852	3,540

2005 Compared to 2004

Net income available to common stockholders for 2005 was $19,567,000 ($.91 per basic share and $.89 per diluted share) compared to $20,703,000 ($1.00 per basic share and $.98 per diluted share) for 2004. Diluted earnings per share (EPS) for 2005 included a $.05 per share gain on the sale of real estate properties compared to a $.07 per share gain on the sale of properties in 2004.

PNOI increased by $7,848,000 or 10.0% for 2005 compared to 2004, primarily due to increased average occupancy, acquisitions and developments. Expense to revenue ratios were 28.6% in 2005 compared to 28.2% in 2004. The Company's percentage leased was 95.3% at December 31, 2005 compared to 94.4% at December 31, 2004. Occupancy at the end of 2005 was 94.3% compared to 93.2% at the end of 2004.

The increase in PNOI was primarily attributable to $4,898,000 from 2004 and 2005 acquisitions, $2,377,000 from newly developed properties and $623,000 from same property growth. These increases in PNOI were offset by increased depreciation and amortization expense and other costs as discussed below.

In November 2004, the Company acquired a 50% undivided tenant-in-common interest in Industry Distribution Center II and accounts for this investment under the equity method of accounting. The Company recognized $450,000 of equity in earnings from this unconsolidated investment in 2005 and $69,000 in 2004 (PNOI of $798,000 for 2005 and $84,000 for 2004 not included above). EastGroup also earned $224,000 and $65,000 for 2005 and 2004, respectively, in mortgage loan interest income on the advances that the Company made to the co- owner in connection with the closing of this property. These loans were repaid by the co-owner during 2005. See Notes 1(a), 3 and 4 in the Notes to the Consolidated Financial Statements for more information related to this investment and the mortgage loans receivable.

The following table presents the components of interest expense for 2005 and 2004:

	Years Ended December 31,	
	2005	2004
	(In thousands, except rates	
Average bank borrowings	$ 100,504	66,867
Weighted average variable interest rates	4.53%	2.76%
VARIABLE RATE INTEREST EXPENSE		
Variable rate interest (excluding loan cost amortization)	4,555	1,845
Amortization of bank loan costs	357	404
Total variable rate interest expense	4,912	2,249
FIXED RATE INTEREST EXPENSE (1)		
Fixed rate interest (excluding loan cost amortization)	20,573	19,388
Amortization of mortgage loan costs	444	427
Total fixed rate interest expense	21,017	19,815
Total interest	25,929	22,064
Less capitalized interest	(2,485)	(1,715)
TOTAL INTEREST EXPENSE	$ 23,444	20,349

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

Interest costs incurred during the period of construction of real estate properties are capitalized and offset against interest expense. Higher bank borrowings were attributable to increased acquisition and development activity during 2005. The Company's weighted average variable interest rates in 2005 were significantly higher than in 2004. 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, 2001	7.61%
December 31, 2002	7.34%
December 31, 2003	6.92%
December 31, 2004	6.74%
December 31, 2005	6.31%

The increase in mortgage interest expense in 2005 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. (The Company assumed one additional mortgage loan in early January 2004, which had an immaterial effect on the increase in interest expense for 2005.)

NEW AND ASSUMED MORTGAGES	INTEREST RATE	DATE
World Houston 17, Kirby, Americas Ten I, Shady Trail, Palm River North I, II & III and Westlake I & II.......	5.680%	09/29/04
Arion Business Park (assumed)............................	4.450%	01/21/05
Interstate Distribution Center - Jacksonville (assumed)...	5.640%	03/31/05
Chamberlain, Lake Pointe, Techway Southwest II and World Houston 19 & 20.................................	4.980%	11/30/05
Oak Creek Distribution Center IV (assumed)................	5.680%	12/07/05
Weighted Average/Total Amount..........................	5.145%	

Mortgage principal payments were $25,880,000 in 2005 and $14,416,000 in 2004. Included in these principal payments are repayments of five mortgages totaling $18,435,000 in 2005 and three mortgages totaling $6,801,000 in 2004. The details of these mortgages are shown in the following table:

MORTGAGE LOANS REPAID IN 2005	INTEREST RATE	DATE REPAID	PA
Westport Commerce Center...........................	8.000%	03/31/05	$
Lamar Distribution Center II.......................	6.900%	06/30/05	
Exchange Distribution Center I.....................	8.375%	07/01/05	
Lake Pointe Business Park..........................	8.125%	07/01/05	
JetPort Commerce Park..............................	8.125%	09/30/05	
Weighted Average/Total Amount....................	8.014%		$
MORTGAGE LOANS REPAID IN 2004			
Eastlake Distribution Center.......................	8.500%	02/17/04	$
Chamberlain Distribution Center....................	8.750%	07/01/04	
56th Street Commerce Park..........................	8.875%	07/30/04	
Weighted Average/Total Amount....................	8.670%		$

Depreciation and amortization for continuing operations increased $6,438,000 for 2005 compared to 2004. This increase was primarily due to properties acquired and transferred from development during 2004 and 2005. Property acquisitions and transferred developments were $92 million in 2005 and $49 million in 2004.

NAREIT has recommended supplemental disclosures concerning straight-line rent, capital expenditures and leasing costs. Straight-lining of rent for continuing operations increased income by $1,943,000 in 2005 compared to $2,861,000 in 2004.

Capital Expenditures

Capital expenditures for the years ended December 31, 2005 and 2004 were as follows:

	Estimated Useful Life	Years Ended December 31, 2005	2004
		(In thousands)	
Upgrade on Acquisitions	40 yrs	$ 506	305
Tenant Improvements:			
New Tenants	Lease Life	5,892	4,498
New Tenants (first generation) (1)	Lease Life	615	1,105
Renewal Tenants	Lease Life	1,374	1,569
Other:			
Building Improvements	5-40 yrs	1,312	1,445
Roofs	5-15 yrs	318	1,645
Parking Lots	3-5 yrs	999	223
Other	5 yrs	246	76
Total capital expenditures		$ 11,262	10,866

(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, 2005 and 2004 were as follows:

	Estimated Useful Life	Years Ended December 31, 2005	2004
		(In thousands)	
Development	Lease Life	$ 1,405	656
New Tenants	Lease Life	2,497	1,840
New Tenants (first generation) (1)	Lease Life	187	257
Renewal Tenants	Lease Life	1,448	1,429
Total capitalized leasing costs		$ 5,537	4,182
Amortization of leasing costs (2)		$ 3,863	3,392

(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. The following table presents the components of revenue and expense for the properties sold or held for sale during 2005 and 2004. In addition, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, the operations of the properties sold in 2006 are included in both years. During 2005, the Company sold two properties and one parcel of land and recognized total gains of $1,164,000. In 2004, the Company sold three properties and one parcel of land and recognized total gains of $1,450,000. 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 sale of these properties.

Discontinued Operations	Years Ended December 31, 2005	2004
	(In thousands)	
Income from real estate operations	$ 5,056	5,488
Expenses from real estate operations	(1,275)	(1,477)
Property net operating income from discontinued operations	3,781	4,011
Other income	94	87
Interest expense	(64)	(132)
Depreciation and amortization	(1,435)	(2,018)
Income from real estate operations	2,376	1,948
Gain on sale of real estate investments	1,164	1,450
Income from discontinued operations	$ 3,540	3,398

NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted SFAS No. 123 (Revised 2004), Share-Based Payment, on January 1, 2006. The new rule required that the compensation cost relating to share-based payment transactions be recognized in the financial statements and that the cost be measured based on the fair value of the equity or liability instruments issued. The Company's adoption of SFAS 123R had no material impact on its overall financial position or results of operations. See Note 10 in the Notes to the Consolidated Financial Statements for more information related to the Company's accounting for stock-based compensation.

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. The Company expects that the adoption of FIN 48 in 2007 will have little or no impact on its overall financial position or 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 are effective

for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. 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 Company expects that the adoption of Statement 157 in 2008 will have little or no impact on its overall financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. SAB 108 was effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The provisions under SAB 108 changed the way the Company assesses misstatements in its financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $66,571,000 for the year ended December 31, 2006. The primary other sources of cash were from bank borrowings, proceeds from new mortgage notes and a common stock offering, and the sale of real estate properties. The Company distributed $45,219,000 in common and $2,624,000 in preferred stock dividends during 2006. Other primary uses of cash were for bank debt repayments, construction and development of properties, mortgage note payments, the purchase of real estate and capital improvements at various properties.

Total debt at December 31, 2006 and 2005 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, 2006 and 2005.

	December 31,	
	2006	2005
	(In thousands)	
Mortgage notes payable - fixed rate.........	$ 417,440	346,961
Bank notes payable - floating rate..........	29,066	116,764
Total debt.............................	$ 446,506	463,725

The Company has a three-year, $175 million unsecured revolving credit facility with a group of nine banks that matures in January 2008. The Company customarily uses this line of credit for acquisitions and developments. The interest rate on the facility is based on the LIBOR index and varies according to debt-to-total asset value ratios, with an annual facility fee of 20 basis points. EastGroup's current interest rate under this facility is LIBOR plus 90 basis points, except that it may be lower based upon the competitive bid option in the note (the Company was first eligible under this facility to exercise its option to solicit competitive bid offers in June 2005). The line of credit can be expanded by $100 million and has a one-year extension at EastGroup's option. At December 31, 2006, the weighted average interest rate was 5.83% on a balance of $20,000,000. The interest rate on each tranche is currently reset on a monthly basis. At February 28, 2007, the balance on this line was comprised of a $9 million tranche at 6.22% and $43.7 million in competitive bid loans at a weighted average rate of 5.81%.

The Company has a one-year $20 million unsecured revolving credit facility with PNC Bank, N.A. that matured in November 2006 and was renewed with a maturity date of November 2007. This credit facility is customarily used for working capital needs. The interest rate on the facility is based on LIBOR and varies according to debt-to-total asset value ratios; it is currently LIBOR plus 100 basis points. At December 31, 2006, the interest rate was 6.32% on $9,066,000. EastGroup currently intends to renew this facilty upon maturity.

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

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 $68.1 million after deducting the underwriting discount and other offering expenses. EastGroup used the proceeds to repay borrowings under its credit facilities.

In August 2006, the Company closed on a $38 million, nonrecourse first mortgage loan secured by properties containing 778,000 square feet. The loan has a fixed interest rate of 5.68%, a ten-year term and an amortization schedule of 20 years. The proceeds of the note were used to repay the maturing mortgages on these properties of $15.4 million and to reduce floating rate bank borrowings.

In October 2006, the Company closed on a $78 million, nonrecourse first mortgage loan secured by properties containing 1,316,000 square feet. The loan has a fixed interest rate of 5.97%, a ten-year term and an amortization schedule of 20 years. The proceeds of the note were used to repay a maturing $20.5 million mortgage and to reduce floating rate bank borrowings.

In January 2007, EastGroup purchased three buildings (181,000 square feet) in Charlotte for $9.3 million and a 60,000 square foot building in Dallas for $2.9 million. In addition, subsequent to December 31, 2006, the Company was under contract to purchase four buildings (456,000 square feet) in Charlotte for $21.1 million, four buildings (231,000 square feet) in San Antonio for $10.6 million and a 67,000 square foot building in Denver for $4.1 million.

Contractual Obligations

EastGroup's fixed, noncancelable obligations as of December 31, 2006 were as follows:

	Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3
		(In thousands)		
Fixed Rate Debt Obligations (1)......	$ 417,440	26,555	56,124	
Interest on Fixed Rate Debt..........	146,858	25,007	44,953	
Variable Rate Debt Obligations (2)...	29,066	9,066	20,000	
Operating Lease Obligations:				
Office Leases....................	849	296	553	
Ground Leases....................	20,515	708	1,414	
Development Obligations (3)..........	15,393	15,393	-	
Tenant Improvements (4)..............	8,294	8,294	-	
Purchase Obligations (5).............	9,300	9,300	-	
Total............................	$ 647,715	94,619	123,044	

(1) These amounts are included on the Consolidated Balance Sheet. A portion of this debt is backed by a letter of credit totaling $10,156,000 at December 31, 2006. 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, 2006, the interest rate was 6.32% on $9,066,000 for the variable rate debt due in November 2007, and the rate for the $20,000,000 debt due in January 2008 was 5.83%. 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, 2006, EastGroup was under contract to purchase one property (three buildings) located in Charlotte, which was acquired during January 2007.

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

Most of the Company's leases include scheduled rent increases. Additionally, most of the Company's leases require the tenants to pay their pro rata share of operating expenses, including real estate taxes, insurance and common area maintenance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. In addition, the Company's leases typically have three to five year terms, which may enable the Company to replace existing leases with new leases at a higher base if rents on the existing leases are below the then-existing market rate.

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.

	2007	2008	2009	2010	2011	Thereaft
Fixed rate debt(1) (in thousands)....	$ 26,555	12,967	43,157	11,680	77,908	245,17
Weighted average interest rate.......	7.19%	6.26%	6.62%	6.03%	7.05%	5.78
Variable rate debt (in thousands)....	$ 9,066	20,000	-	-	-	
Weighted average interest rate.......	6.32%	5.83%	-	-	-	

(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 5.3%.

(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, 2006, 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 60 basis points, interest expense and cash flows would increase or decrease by approximately $174,000 annually.

The Company has an interest rate swap agreement to hedge its exposure to the variable interest rate on the Company's $10,040,000 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 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
	(In thousands)			
Swap	$10,040	12/31/10	1 month LIBOR	4.03%

FORWARD-LOOKING STATEMENTS

The Company's assumptions and financial projections in this report are based upon "forward-looking" information and are being made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 or that development or operating costs may be greater than anticipated. 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. See also the Company's reports to be filed from time to time with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Registrant's Consolidated Balance Sheets as of December 31, 2006 and 2005, 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, 2006, 2005 and 2004 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 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, 2006, 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 management's assessment of the effectiveness of the Company's internal control over financial reporting and the effectiveness of 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, 2006 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 ("2007 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 30, 2007. The 2007 Proxy Statement will be filed within 120 days after the end of the Company's fiscal year ended December 31, 2006.

The information regarding executive officers is incorporated herein by reference from the section entitled "Executive Officers" in the Company's 2007 Proxy Statement.

The information regarding compliance with Section 16(a) of the Securities and Exchange Act of 1934 is incorporated herein by reference from the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 2007 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 by reference herein from the subsection entitled "Audit Committee" in the section entitled "Board Committees and Meetings" in the Company's 2007 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION.

The information included under the following captions in the Company's 2007 Proxy Statement is incorporated herein by reference: "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan-Based Awards in 2006," "Outstanding Equity Awards at 2006 Fiscal Year-End," "Option Exercises and Stock Vested in 2006," "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 2007 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 of 1934, as amended.

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

Information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans 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 2007 Proxy Statement.

The following table summarizes our equity compensation plan information as of December 31, 2006.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c Nu av eq se
Equity compensation plans approved by			

security holders	186,556	$21.60
Equity compensation plans not approved by security holders	-	-
Total	186,556	$21.60

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

The information regarding director independence is incorporated herein by reference from the subsection entitled "Independent Directors" in the section entitled "Proposal One: Election of Directors" in the Company's 2007 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 2007 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, 2006 and 2005
Consolidated Statements of Income - Years ended December 31, 2006, 2005 and 2004
Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 20
Consolidated Statements of Cash Flows - Years ended December 31, 2006, 2005 and 2004
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 Appendix

C to the Company's Proxy Statement for its Annual Meeting of Stockholders held on June 5, 1997).

(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

(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).

(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 (filed herewith). *

(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 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, Annual Long-Term Incentive and 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).*

(n) Credit Agreement dated December 6, 2004 among EastGroup Properties, L.P.; EastGroup Properties, Inc.; PNC Bank, National Association, as Administrative Agent; Commerzbank Aktiengesellschaft, New York Branch and SunTrust Bank as Co-Syndication Agents; AmSouth Bank and Wells Fargo Bank, National Association, as Co-Documentation Agents; PNC Capital Markets, Inc., as Sole Lead Arranger and Sole Bookrunner; and the Lenders (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 2004).

(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 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, 2006 and 2005, 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, 2006. 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 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 10 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 effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Jackson, Mississippi KPMG LLP
February 27, 2007

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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, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Jackson, Mississippi EASTGROUP PROPERTIES, INC.
February 27, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE DIRECTORS AND STOCKHOLDERS
EASTGROUP PROPERTIES, INC.:

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that EastGroup

Properties, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that EastGroup Properties, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, EastGroup Properties, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on 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, 2006 and 2005, 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, 2006, and our report dated February 27, 2007, expressed an unqualified opinion on those consolidated financial statements.

Jackson, Mississippi KPMG LLP
February 27, 2007

CONSOLIDATED BALANCE SHEETS

	2006
	(In thousands, e
ASSETS	
Real estate properties	$ 973,910
Development	114,986
	1,088,896
Less accumulated depreciation	(231,106
	857,790
Real estate held for sale	-
Unconsolidated investment	2,595
Cash	940
Other assets	50,462
TOTAL ASSETS	$ 911,787
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES	
Mortgage notes payable	$ 417,440
Notes payable to banks	29,066
Accounts payable & accrued expenses	32,589
Other liabilities	11,747
	490,842
Minority interest in joint ventures	2,148
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; 23,701,275 shares issued and outstanding at December 31, 2006 and 22,030,682 at December 31, 2005	2
Excess shares; $.0001 par value; 30,000,000 shares authorized; no shares issued	-
Additional paid-in capital on common shares	463,170
Distributions in excess of earnings	(77,015
Accumulated other comprehensive income	314
	418,797
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 911,787

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	Years
	2006
	(In thousand
REVENUES	
Income from real estate operations	$ 133,144
Equity in earnings of unconsolidated investment	287
Other income	182
	133,613
EXPENSES	
Expenses from real estate operations	37,354
Depreciation and amortization	41,525
General and administrative	7,401
Minority interest in joint ventures	600
	86,880
OPERATING INCOME	46,733
OTHER INCOME (EXPENSE)	
Gain on sale of nonoperating real estate	123
Interest income	142
Interest expense	(24,616)
INCOME FROM CONTINUING OPERATIONS	22,382
DISCONTINUED OPERATIONS	
Income from real estate operations	1,125
Gain on sale of real estate investments	5,727
INCOME FROM DISCONTINUED OPERATIONS	6,852
NET INCOME	29,234
Preferred dividends-Series D	2,624
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 26,610
BASIC PER COMMON SHARE DATA	
Income from continuing operations	$ .88
Income from discontinued operations	.31
Net income available to common stockholders	$ 1.19

Weighted average shares outstanding...........................	22,372
DILUTED PER COMMON SHARE DATA	
Income from continuing operations.............................	$ .87
Income from discontinued operations...........................	.30
Net income available to common stockholders...................	$ 1.17
Weighted average shares outstanding...........................	22,692
Dividends declared per common share............................	$ 1.96

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 Exces Of Earnin
	(In thousands, except for share			
BALANCE, DECEMBER 31, 2003.......................	$ 32,326	2	350,242	(15,595
Comprehensive income				
Net income....................................	-	-	-	23,327
Net unrealized change in fair value of interest rate swap.........................	-	-	-	-
Total comprehensive income..................				
Common dividends declared - $1.92 per share.......	-	-	-	(40,315
Preferred dividends declared - $1.9876 per share..	-	-	-	(2,624
Stock-based compensation, net of forfeitures......	-	-	1,489	-
Issuance of 167,380 shares of common stock, options exercised............................	-	-	2,592	-
Issuance of 10,247 shares of common stock, dividend reinvestment plan.....................	-	-	357	-
Other...	-	-	(9)	-
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

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	2
OPERATING ACTIVITIES	
Net income..	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization from continuing operations..............................	
Depreciation and amortization from discontinued operations............................	
Minority interest depreciation and amortization..	
Amortization of mortgage loan premiums..	
Gain on sale of real estate investments...	
Stock-based compensation expense..	
Equity in earnings of unconsolidated investment net of distributions..................	
Changes in operating assets and liabilities:	
Accrued income and other assets...	
Accounts payable, accrued expenses and prepaid rent...................................	
NET CASH PROVIDED BY OPERATING ACTIVITIES..	
INVESTING ACTIVITIES	
Real estate development...	(
Purchases of real estate..	(

Real estate improvements...	(
Proceeds from sale of real estate investments..	
Purchase of unconsolidated investment..	
Distributions from unconsolidated investment..	
Advances on mortgage loans receivable...	
Repayments on mortgage loans receivable...	
Changes in other assets and other liabilities..	
NET CASH USED IN INVESTING ACTIVITIES..	(
FINANCING ACTIVITIES	
Proceeds from bank borrowings...	1
Repayments on bank borrowings...	(2
Proceeds from mortgage notes payable..	1
Principal payments on mortgage notes payable..	(
Debt issuance costs...	
Distributions paid to stockholders..	(
Proceeds from common stock offerings..	
Proceeds from exercise of stock options..	
Proceeds from dividend reinvestment plan...	
Other..	
NET CASH PROVIDED BY FINANCING ACTIVITIES..	
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 $4,336, $2,485 and $1,715 for 2006, 2005 and 2004, respectively..	$
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...	

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006, 2005 AND 2004

(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 and 2004, the Company had a controlling interest in one joint venture: the 80% owned University Business Center. At December 31, 2006, 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 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 2006, 2005 and 2004 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 2006, 2005 and 2004.

Federal Income Tax Treatment of Share Distributions

	Years Ended Decem	
	2006	2005
Common Share Distributions:		
Ordinary income......................................	$ 1.3660	1.4816
Return of capital....................................	-	.3724
Unrecaptured Section 1250 long-term capital gain......	.4160	.0828
Other long-term capital gain.........................	.1780	.0032
Total Common Distributions............................	$ 1.9600	1.9400
Series D Preferred Share Distributions:		
Ordinary income......................................	$ 1.3852	1.8788
Unrecaptured Section 1250 long-term capital gain......	.4220	.1044
Other long-term capital gain.........................	.1804	.0044
Total Preferred D Distributions.......................	$ 1.9876	1.9876

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

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 Statement of Financial Accounting Standards (SFAS) No. 66, Accounting for Sales of Real Estate. Upon 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 $35,428,000, $32,693,000 and $29,249,000 for 2006, 2005 and 2004, 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. When the property becomes classified as an industrial property, the entire property is depreciated accordingly, and all interest and property taxes are expensed.

(f) Real Estate Held for Sale

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 Operations on the consolidated income statements. Interest expense 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 $819,000, $801,000 and $831,000 for 2006, 2005 and 2004, 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 $4,304,000, $3,863,000 and $3,392,000 for 2006, 2005 and 2004, 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 lesaes. 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. Amortization expense for in-place lease intangibles was $2,485,000, $2,750,000 and $810,000 for 2006, 2005 and 2004, 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, 2006 is as follows:

Years Ending December 31,	(In thousands)
2007	$ 1,980
2008	1,200
2009	756
2010	350
2011	212

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. In accordance with SFAS No. 141, intangibles associated with the purchase of real estate were allocated as follows: $1,095,000 to in-place lease intangibles (included in Other Assets on the balance sheet) and $246,000 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.

Total cost of the properties acquired for 2005 was $76,786,000, of which $70,882,000 was allocated to real estate properties. Intangibles associated with the purchases of real estate were allocated as follows: $5,882,000 to in-place lease intangibles and $337,000 to above market leases (both included in Other Assets on the balance sheet) and $315,000 to below market leases. The Company paid cash of $46,286,000 for the properties and intangibles acquired, assumed mortgages of $29,218,000 and recorded premiums totaling $1,282,000 to adjust the mortgage loans assumed to fair value.

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, 2006 and 2005.

(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 expense 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 expense 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 expense 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.

The total compensation expense 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 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

The Company adopted SFAS No. 123 (Revised 2004), Share-Based Payment, on January 1, 2006. The new rule required that the compensation cost relating to share-based payment transactions be recognized in the financial statements and that the cost be measured based on the fair value of the equity or liability instruments issued. The Company's adoption of SFAS 123R had no material impact on its overall financial position or results of operations. See Note 10 in the Notes to the Consolidated Financial Statements for more information related to the Company's accounting for stock-based compensation.

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. The Company expects

that the adoption of FIN 48 in 2007 will have little or no impact on its overall financial position or 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 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. 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 Company expects that the adoption of Statement 157 in 2008 will have little or no impact on its overall financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. SAB 108 was effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The provisions under SAB 108 changed the way the Company assesses misstatements in its financial statements.

(o) Reclassifications

Certain reclassifications have been made in the 2005 and 2004 consolidated financial statements to conform to the 2006 presentation. These amounts include reclassifications in the accompanying consolidated statements of cash flows. The reclassifications in 2005 resulted in an increase of $593,000 in cash flows from operating activities, an increase of $455,000 in investing activities and a decrease of $1,048,000 in financing activities. The reclassifications in 2004 resulted in an increase of $96,000 in cash flows from operating activities, an increase of $297,000 in investing activities and a decrease of $393,000 in financing activities. These reclassifications were immaterial to the prior periods presented.

(2) REAL ESTATE OWNED

The Company's real estate properties at December 31, 2006 and 2005 were as follows:

	December 31,	
	2006	2005
	(In thousands)	
Real estate properties:		
Land	$ 154,384	152,954
Buildings and building improvements	670,751	656,897
Tenant and other improvements	148,775	133,734
Development	114,986	77,483
	1,088,896	1,021,068
Less accumulated depreciation	(231,106)	(206,427)
	$ 857,790	814,641

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 2006 were $4,336,000 compared to $2,485,000 for 2005 and $1,715,000 for 2004.

Total capital investment for development during 2006 was $77,666,000. In addition to the costs incurred for the year as detailed in the table below, development costs included $2,549,000 for improvements on developments during the 12-month period following transfer to Real Estate Properties.

		Costs Incurre	
	Size	Costs Transferred in 2006(1)	For the Year Ende 12/31/06
DEVELOPMENT	(Unaudited)		
	(Square feet)		(In thou
LEASE-UP			
Santan 10 II, Chandler, AZ......................	85,000	$ -	2,628
Southridge II, Orlando, FL.....................	41,000	-	2,090
World Houston 15, Houston, TX..................	63,000	-	2,099
Oak Creek III, Tampa, FL......................	61,000	-	2,517
Arion 17, San Antonio, TX......................	40,000	-	1,610
Southridge VI, Orlando, FL.....................	81,000	2,580	2,391
Oak Creek V, Tampa, FL........................	100,000	1,389	3,444
Total Lease-up..................................	471,000	3,969	16,779
UNDER CONSTRUCTION			
Southridge III, Orlando, FL....................	81,000	1,532	2,921
Beltway Crossing II, III & IV, Houston, TX......	160,000	2,388	4,765
Castilian Research Center, Santa Barbara, CA....	35,000	-	731
World Houston 22, Houston, TX..................	68,000	1,926	1,144
SunCoast I & II, Fort Myers, FL................	126,000	3,247	2,031
World Houston 23, Houston, TX..................	125,000	1,274	3,223
Arion 16, San Antonio, TX......................	64,000	758	1,626
40th Avenue Distribution Center, Phoenix, AZ....	89,000	1,101	-
Interstate Commons III, Phoenix, AZ............	38,000	573	-
Oak Creek A & B, Tampa, FL (2).................	35,000	751	-
World Houston 24, Houston, TX..................	93,000	1,101	-
World Houston 25, Houston, TX..................	66,000	645	-
Total Under Construction........................	980,000	15,296	16,441
PROSPECTIVE DEVELOPMENT (PRIMARILY LAND)			
Phoenix, AZ....................................	271,000	(1,674)	7,028
Tucson, AZ.....................................	70,000	-	-
Tampa, FL......................................	329,000	(2,140)	1,926
Orlando, FL....................................	652,000	(4,112)	3,898
West Palm Beach, FL............................	20,000	-	131
Fort Myers, FL.................................	752,000	(3,247)	13,979
El Paso, TX....................................	251,000	-	-
Houston, TX....................................	943,000	(6,561)	4,554
San Antonio, TX................................	303,000	(758)	3,164

Jackson, MS	28,000	-	-
Total Prospective Development	3,619,000	(18,492)	34,680
	5,070,000	$ 773	67,900
DEVELOPMENTS COMPLETED AND TRANSFERRED TO REAL ESTATE PROPERTIES DURING 2006			
Southridge V, Orlando, FL	70,000	$ -	(214)
Executive Airport CC II, Fort Lauderdale, FL	55,000	-	38
Palm River South II, Tampa, FL	82,000	-	862
Southridge I, Orlando, FL	41,000	-	735
Southridge IV, Orlando, FL	70,000	-	1,297
Sunport Center VI, Orlando, FL	63,000	-	604
Techway SW III, Houston, TX	100,000	-	248
Arion 14, San Antonio, TX	66,000	-	1,876
World Houston 21, Houston, TX	68,000	-	1,771
Total Transferred to Real Estate Properties	615,000	$ -	7,217

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(1) Represents costs transferred from Prospective Development (principally land) to Under Construction during the year and $773,000 that was transferred from the category "held for sale."
(2) These properties are being developed for sale.
(3) Represents cumulative costs at the date of transfer.

Real estate held for sale, consisting of two parcels of land in Houston, Texas, was $773,000 at December 31, 2005. As a result of a change in plans by management, this land was transferred into the development program 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 during 2006 and were subsequently sold. The sale 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 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 and $132,000 for 2005 and 2004, respectively. A summary of gain on sale of real estate investments for the years ended December 31, 2006, 2005 and 2004 follows:

Gain on Sale of Real Estate Investments

Real Estate Properties	Location	Size	Date Sold	Net Sales Pri

2006				
Madisonville land..................	Madisonville, KY	1.2 Acres	01/05/06	$ 8
Senator I & II/Southeast Crossing...	Memphis, TN	534,000 SF	03/09/06	14,8
Dallas land........................	Dallas, TX	0.1 Acre	03/16/06	
Lamar Distribution Center I.........	Memphis, TN	125,000 SF	06/30/06	2,9
Crowfarn Distribution Center........	Memphis, TN	106,000 SF	12/14/06	2,6
Auburn Facility....................	Auburn Hills, MI	114,000 SF	12/28/06	17,2
Fort Myers land....................	Fort Myers, FL	.8 Acre	12/29/06	2
Deferred gain recognized from previous sale..................				
				$ 38,8
2005				
Delp Distribution Center II.........	Memphis, TN	102,000 SF	02/23/05	$ 2,0
Lamar Distribution Center II........	Memphis, TN	151,000 SF	06/30/05	3,7
Sabal Land.........................	Tampa, FL	1.9 Acres	09/30/05	2
				$ 6,0
2004				
Getwell Distribution Center.........	Memphis, TN	26,000 SF	06/30/04	$ 7
Sample 95 Business Park III.........	Pompano Beach, FL	18,000 SF	07/01/04	1,9
Viscount Distribution Center........	Dallas, TX	104,000 SF	08/20/04	2,1
Sabal Land	Tampa, FL	4.4 Acres	10/04/04	4
				$ 5,3

The following schedule indicates approximate future minimum rental receipts under noncancelable leases for real estate properties by year as of December 31, 2006:

Future Minimum Rental Receipts Under Noncancelable Leases

Years Ending December 31,	(In thousands)
2007....................................	$ 104,776
2008....................................	84,646
2009....................................	62,874
2010....................................	43,023
2011....................................	28,379
Thereafter..............................	50,686
Total minimum receipts................	$ 374,384

Ground Leases

As of December 31, 2006, the Company owned two properties in Florida, two properties in Texas, one property in Arizona and one property in Mississippi that are subject to ground leases. These leases have terms of 40 to 75 years, expiration dates of August 2031 to November 2076, and renewal options of 15 to 35 years, except for the one lease in Arizona which is automatically renewed annually. Total lease expenditures for the years ended December 31, 2006, 2005 and 2004 were $707,000, $686,000 and $679,000, respectively. Payments on five of the properties 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. The following schedule indicates approximate future minimum lease payments for these properties by year as of December 31, 2006:

Future Minimum Ground Lease Payments

Years Ending December 31,	(In thousands)
2007	$ 708
2008	707
2009	707
2010	707
2011	707
Thereafter	16,979
Total minimum payments	$ 20,515

(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 $2,595,000 at December 31, 2006. At the end of May 2005, EastGroup and the property co-owner closed a nonrecourse 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 $6,585,000 at December 31, 2005 and $6,451,000 at December 31, 2006.

(4) MORTGAGE LOANS RECEIVABLE

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 secured permanent fixed-rate financing 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 and $65,000 for 2004.

(5) OTHER ASSETS

A summary of the Company's Other Assets follows:

D

2006

	(I
Leasing costs (principally commissions), net of accumulated amortization....	$ 15,8
Straight-line rent receivable, net of allowance for doubtful accounts.......	13,5
Accounts receivable, net of allowance for doubtful accounts.................	5,1
Acquired in-place lease intangibles, net of accumulated amortization of $4,294 and $3,580 for 2006 and 2005, respectively	4,6
Goodwill..	9
Prepaid expenses and other assets..	10,2
	$ 50,4

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(6) NOTES PAYABLE TO BANKS

The Company has a three-year, $175 million unsecured revolving credit facility with a group of nine banks that matures in January 2008. The Company customarily uses this line of credit for acquisitions and developments. The interest rate on the facility is based on the LIBOR index and varies according to debt-to-total asset value ratios, with an annual facility fee of 20 basis points. EastGroup's current interest rate under this facility is LIBOR plus 90 basis points, except that it may be lower based upon the competitive bid option in the note (the Company was first eligible under this facility to exercise its option to solicit competitive bid offers in June 2005). The line of credit can be expanded by $100 million and has a one-year extension at EastGroup's option. At December 31, 2006, the weighted average interest rate was 5.83% on a balance of $20,000,000. The interest rate on each tranche is currently reset on a monthly basis.

The Company has a one-year $20 million unsecured revolving credit facility with PNC Bank, N.A. that matured in November 2006 and was renewed with a maturity date of November 2007. This credit facility is customarily used for working capital needs. The interest rate on the facility is based on LIBOR and varies according to debt-to-total asset value ratios; it is currently LIBOR plus 100 basis points. At December 31, 2006, the interest rate was 6.32% on $9,066,000. EastGroup currently intends to renew this facility upon maturity.

Average bank borrowings were $91,314,000 in 2006 compared to $100,504,000 in 2005 with weighted average interest rates of 6.12% in 2006 compared to 4.53% in 2005. Weighted average interest rates including amortization of loan costs were 6.50% for 2006 and 4.89% for 2005. Amortization of bank loan costs was $355,000, $357,000 and $404,000 for 2006, 2005 and 2004, 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, 2006.

The Company has an interest rate swap agreement to hedge its exposure to the variable interest rate on the Company's $10,040,000 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	a
	(In thousands)				

Swap	$10,040(1)	12/31/10	1 month LIBOR	4.03%

(1) This mortgage is backed by a letter of credit totaling $10,156,000 at December 31, 2006. The letter of credit is renewable annually and expires on January 15, 2011.

(7) MORTGAGE NOTES PAYABLE

A summary of mortgage notes payable follows:

Property	Rate	Monthly P&I Payment	Maturity Date	Carr of Rea Decem
Huntwood Distribution Center..............................	7.990%	$ 100,250	Repaid	$
Wiegman Distribution Center...............................	7.990%	46,269	Repaid	
Arion Business Park.......................................	4.450%	102,329	Repaid	
World Houston 1 & 2.......................................	7.770%	33,019	04/15/07	
East University I & II, Broadway VI, 55th Avenue and Ethan Allen..	8.060%	96,974	06/26/07	
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	
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%	143,420	10/10/14	
Chamberlain, 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	
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 5.3%. 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 currently intends to repay its debt service 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, 2006 are as follows:

Years Ending December 31,	(In thousands)
2007	$ 26,555
2008	12,967
2009	43,157
2010	11,680
2011	77,908

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(8) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	December 31,	
	2006	2005
	(In thousands)	
Property taxes payable	$ 8,235	8,224
Development costs payable	6,504	2,777
Dividends payable	2,839	2,363
Other payables and accrued expenses	15,011	9,577
	$ 32,589	22,941

(9) COMMON STOCK ACTIVITY

The following table presents the common stock activity for the three years ended December 31, 2006:

	Years Ended December 31,		
	2006	2005	
	Common Shares		
Shares outstanding at beginning of year	22,030,682	21,059,164	20,
Common stock offerings	1,437,500	860,000	
Stock options exercised	118,269	72,415	
Dividend reinvestment plan	6,236	8,279	

Incentive restricted stock granted...............	118,334	33,446	
Incentive restricted stock forfeited.............	(3,756)	(3,396)	
Director incentive restricted stock granted.......	-	481	
Director common stock awarded.....................	3,402	1,200	
Restricted stock withheld for tax obligations.....	(9,392)	(907)	
Shares outstanding at end of year................	23,701,275	22,030,682	21,

Common Stock Issuances

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.

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. The Rights will expire at the close of business on December 3, 2008.

Each whole Right will entitle the holder to buy one one-thousandth (1/1000) of a newly issued share of EastGroup's Series C Preferred Stock at an exercise price of $70.00. The Rights attach to and trade with the shares of the Company's Common Stock. 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.

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

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

EastGroup will generally be entitled to redeem the Rights at $0.0001 per Right at any time until the 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.

(10) STOCK-BASED COMPENSATION

The Company adopted SFAS No. 123 (Revised 2004) (SFAS No. 123R), Share-Based Payment, on January 1, 2006. The new 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 1,751,796; 1,865,572; and 1,898,945 at December 31, 2006, 2005 and 2004, respectively. Typically, the Company issues new shares to fulfill stock grants or upon the exercise of stock options.

Stock-based compensation expense was $2,788,000, $2,021,000 and $1,255,000 for 2006, 2005 and 2004, respectively, of which $768,000, $455,000 and $297,000 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 over nine years from the date of the grant for grants subject to service only. Restricted stock is granted to executives upon the satisfaction of annual performance goals and multi-year market goals with vesting over one to seven years. Under the modified prospective application method, the Company continues to recognize compensation expense on a straight-line basis over the service period for awards that precede

the adoption of SFAS No. 123R. The expense 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 expense 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.

The total compensation expense 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 was determined using a simulation pricing model developed to specifically accommodate the unique features of the awards.

In the second quarter of 2006, the Company granted shares contingent upon the attainment of certain annual performance goals and multi-year market conditions. At December 31, 2006, the estimated number of shares to be awarded under the annual performance goals was 37,258 at a weighted average grant date fair value of $43.83 per share to be vested over five years. The weighted average grant date fair value for shares to be awarded under the multi-year market conditions was $26.34 per target share with a total cost of approximately $2.1 million. These shares will vest over four years following a three-year performance measurement period which ends on December 31, 2008. Compensation costs related to these grants are included in stock-based compensation expense for the year ended December 31, 2006.

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. As of December 31, 2006, there was $3,054,000 of unrecognized compensation cost related to nonvested restricted stock compensation that is expected to be recognized over a weighted average period of 2.22 years.

Following is a summary of the total restricted shares granted, forfeited and delivered to employees with the related weighted average grant date fair value share prices for 2006, 2005 and 2004. The table does not include the shares granted in 2006 that are contingent on performance goals or market conditions. Of the shares that vested in 2006 and 2005, 9,392 shares and 907 shares, respectively, were withheld by the Company to satisfy the tax obligations for those employees who elected this option as permitted under the applicable equity plan. The fair value of shares that were granted during 2006, 2005 and 2004 was $494,000, $1,008,000 and $1,125,000 respectively. As of the vesting date, the fair value of shares that vested during 2006, 2005 and 2004 was $4,849,000, $2,415,000, and $224,000, respectively.

Restricted Stock Activity:	Years Ended December 31,				
	2006		2005		
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Sha
Nonvested at beginning of year......	177,444	$ 23.01	204,348	$ 22.25	18
Granted (1).........................	118,334	38.12	33,446	30.15	3
Forfeited...........................	(3,756)	22.07	(3,396)	22.94	(
Vested..............................	(95,351)	30.15	(56,954)	24.50	(

Nonvested at end of year...........	196,671	28.66	177,444	23.01	20

(1) Includes shares granted in prior years for which performance conditions have been satisfied and the number of shares have been determined.

Following is a vesting schedule of the total nonvested shares as of December 31, 2006:

Nonvested Shares Vesting Schedule	Number of Shares
2007....................................	88,488
2008....................................	73,813
2009....................................	34,370
Total Nonvested Shares...................	196,671

Employee Stock Options

The Company has not granted stock options to employees since 2002. Outstanding employee stock options vested equally over a two-year period; accordingly, all options are now vested. The intrinsic value realized by employees from the exercise of options during 2006, 2005 and 2004 was $3,641,000, $758,000 and $2,635,000 respectively. Following is a summary of the total employee stock options granted, forfeited, exercised and expired with related weighted average exercise share prices for 2006, 2005 and 2004.

Stock Option Activity:	Years Ended December 31,				
	2006		2005		
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Sh
Outstanding at beginning of year....	251,075	$ 19.80	286,740	$ 19.85	43
Granted............................	-	-	-	-	
Forfeited..........................	-	-	-	-	
Exercised..........................	(116,019)	18.29	(34,665)	20.11	(14
Expired............................	-	-	(1,000)	24.40	
Outstanding at end of year..........	135,056	21.10	251,075	19.80	28
Exercisable at end of year..........	135,056	$ 21.10	251,075	$ 19.80	28

Employee outstanding stock options at December 31, 2006, all exercisable:

Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value

$ 18.50-25.30	135,056	2.0 years	$ 21.10	$4,426,000

Directors Equity Plan

The Company has a directors equity plan that was approved by shareholders and adopted in 2005 (the 2005 Plan), which authorizes the issuance of up to 50,000 shares of common stock through awards of shares and restricted shares granted to nonemployee directors of the Company. The 2005 Plan replaced prior plans under which directors were granted stock option awards. Outstanding grants under prior plans will be fulfilled under those plans.

In 2005, 1,200 common shares of stock were issued to directors. In addition, 481 shares of restricted stock at $41.57 were granted, of which 120 shares were vested as of December 31, 2006. The restricted stock vests 25% per year for four years. As of December 31, 2006, there was $12,000 of unrecognized compensation cost related to nonvested restricted stock compensation that is expected to be recognized over

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a weighted average period of 2.50 years. In 2006, 3,402 common shares of stock were issued to directors. There were 44,917 shares available for grant under the 2005 Plan at December 31, 2006.

Stock-based compensation expense for directors was $105,000, $27,000 and $1,000 for 2006, 2005 and 2004, respectively. The intrinsic value realized by directors from the exercise of options was $70,000, $670,000 and $402,000 for 2006, 2005 and 2004, respectively.

Following is a summary of the total director stock options granted, exercised and expired with related weighted average exercise share prices for 2006, 2005 and 2004.

Stock Option Activity:	Years Ended December 31,				
	2006		2005		
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shar
Outstanding at beginning of year....	53,750	$ 22.58	91,500	$ 22.12	113,
Granted...........................	-	-	-	-	
Forfeited.........................	-	-	-	-	
Exercised.........................	(2,250)	14.58	(37,750)	21.47	(21,
Expired...........................	-	-	-	-	
Outstanding at end of year..........	51,500	22.93	53,750	22.58	91,
Exercisable at end of year..........	51,500	$ 22.93	53,750	$ 22.58	91,
Available for grant at end of year..	-	-	-	-	88,

Director outstanding stock options at December 31, 2006, all exercisable:

	Weighted Average Remaining	Weighted Average	Intrinsic

Exercise Price Range	Number	Contractual Life	Exercise Price	Value
$ 19.38-26.60	51,500	4.12 years	$ 22.93	$1,593,000

(11) PREFERRED STOCK

Series D 7.95% Cumulative Redeemable Preferred Stock

In July 2003, EastGroup sold 1,320,000 shares of 7.95% Series D Cumulative Redeemable Preferred Stock at $25.00 per share in a direct placement. The preferred stock is redeemable by the Company at $25.00 per share, plus accrued and unpaid dividends, on or after July 2, 2008. The preferred stock has no stated maturity, sinking fund or mandatory redemption and is not convertible into any other securities of the Company.

The Company declared dividends of $1.9876 per share for Series D Preferred for each of the years 2006, 2005 and 2004.

(12) COMPREHENSIVE INCOME

Comprehensive income is comprised of net income plus all other changes in equity from nonowner sources. The components of accumulated other comprehensive income (loss) for 2006, 2005 and 2004 are presented in the Company's Consolidated Statements of Changes in Stockholders' Equity and are summarized below.

	2006
	(In t
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):	
Balance at beginning of year..	$ 311
Change in fair value of interest rate swap........................	3
Balance at end of year..	$ 314

(13) EARNINGS PER SHARE

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

Reconciliation of Numerators and Denominators

	2006
	(In t
BASIC EPS COMPUTATION	
Numerator-net income available to common stockholders........	$ 26,610
Denominator-weighted average shares outstanding.............	22,372
DILUTED EPS COMPUTATION	
Numerator-net income available to common stockholders........	$ 26,610

Denominator:	
Weighted average shares outstanding.......................	22,372
Common stock options......................................	143
Nonvested restricted stock................................	177
Total Shares..	22,692

(14) QUARTERLY RESULTS OF OPERATIONS - UNAUDITED

	2006 Quarter Ended				
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 3
			(In thousands, except per		
Revenues..............................	$ 32,293	32,866	34,061	34,658	29,2
Expenses..............................	(27,559)	(27,564)	(28,380)	(27,993)	(24,8
Income from continuing operations......	4,734	5,302	5,681	6,665	4,4
Income from discontinued operations....	1,427	274	239	4,912	1,0
Net income............................	6,161	5,576	5,920	11,577	5,5
Preferred dividends...................	(656)	(656)	(656)	(656)	(6
Net income available to common stockholders......................	$ 5,505	4,920	5,264	10,921	4,8
BASIC PER SHARE DATA					
Net income available to common stockholders......................	$ .25	.22	.24	.47	.
Weighted average shares outstanding....	21,881	21,932	22,235	23,425	20,8
DILUTED PER SHARE DATA					
Net income available to common stockholders......................	$ .25	.22	.23	.46	.
Weighted average shares outstanding....	22,208	22,237	22,553	23,749	21,1

The above quarterly earnings per share calculations are based on the weighted average number of common shares outstanding during each quarter for basic earnings per share and the weighted average number of outstanding common shares and common share equivalents during each quarter for diluted earnings per share. The annual earnings per share calculations in the Consolidated Statements of Income are based on the weighted average number of common shares outstanding during each year for basic earnings per share and the weighted average number of outstanding common shares and common share equivalents during each year for diluted earnings per share.

(15) DEFINED CONTRIBUTION PLAN

EastGroup maintains a 401(k) plan for its employees. The Company makes matching contributions of 50% of the employee's contribution (limited to 10% of compensation as defined by the plan) and may also make annual discretionary contributions. The Company's total expense for this plan was $378,000, $387,000 and $332,000 for 2006, 2005 and 2004, respectively.

(16) LEGAL MATTERS

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.

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2006 and 2005. SFAS No. 107, Disclosures About Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties.

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and cash equivalents......	$ 940	940	1,915	1,9
Interest rate swap............	314	314	311	3
Financial Liabilities				
Mortgage notes payable.........	417,440	421,271	346,961	357,0
Notes payable to banks.........	29,066	29,066	116,764	116,7

Carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions, except as indicated in the notes below.

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

Cash and Cash Equivalents: The carrying amounts approximate fair value because of the short maturity of those instruments.
Interest Rate Swap: The fair value of the interest rate swap is the amount at which it could be settled, based on estimates obtained from the counterparty. The interest rate swap is shown under Other Assets on the consolidated balance sheets.
Mortgage Notes Payable: The fair value of the Company's mortgage notes payable is estimated based on the quoted market prices for similar issues or by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers.
Notes Payable to Banks: The carrying amounts approximate fair value because of the variable rates of interest on the debt.

(18) SUBSEQUENT EVENTS

In January 2007, EastGroup purchased three buildings (181,000 square feet) in Charlotte for $9.3 million and a 60,000 square foot building in Dallas for $2.9 million. In addition, subsequent to December 31, 2006, the Company was under contract to purchase four buildings (456,000 square feet) in Charlotte for $21.1 million, four buildings (231,000 square feet) in San Antonio for $10.6 million and a 67,000 square foot building in Denver for $4.1 million.

(19) RELATED PARTY TRANSACTIONS

EastGroup and Parkway Properties, Inc. equally share the services and expenses of the Company's Chairman of the Board of Directors. These services and expenses include rent for office and storage space, administrative costs, insurance benefits, and entertainment and travel expenses. EastGroup and Parkway each pay a separate salary to the Chairman.

EastGroup also leases 12,000 square feet of space for its executive offices in Jackson, Mississippi in a building owned by Parkway.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULES

THE DIRECTORS AND STOCKHOLDERS
EASTGROUP PROPERTIES, INC.:

Under date of February 27, 2007, we reported on the consolidated balance sheets of EastGroup Properties, Inc. and subsidiaries, as of December 31, 2006 and 2005, 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, 2006, which are included in the 2006 Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules as listed in Item 15(a)(2) of Form 10-K. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Jackson, Mississippi KPMG LLP
February 27, 2007

SCHEDULE III

REAL ESTATE PROPERTIES AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2006 (In thousands)

		Initial Cost to the Company			Gross Amount at which Carried at Close of Period			
Description	Encumbrances	Land	Buildings and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Buildings and Improvements	Total	D
Real Estate Properties (c):								
Industrial:								
FLORIDA								
Jacksonville								
Deerwood	$ -	1,147	1,799	1,391	1,147	3,190	4,337	

Phillips	-	1,375	2,961	2,886	1,375	5,847	7,222
Lake Pointe (l)	16,623	3,442	6,450	3,859	3,442	10,309	13,751
Ellis	-	540	7,513	604	540	8,117	8,657
Westside	-	1,170	12,400	3,783	1,170	16,183	17,353
Beach	-	476	1,899	511	476	2,410	2,886
Interstate Dist.	4,830	1,879	5,700	123	1,879	5,823	7,702
Orlando							
Chancellor	-	291	1,711	61	291	1,772	2,063
Exchange I	-	603	2,414	1,537	603	3,951	4,554
Exchange II	-	300	945	30	300	975	1,275
Exchange III	-	320	997	4	320	1,001	1,321
Sunbelt Center (j)	7,828	1,474	5,745	3,784	1,474	9,529	11,003
John Young I	-	497	2,444	525	497	2,969	3,466
John Young II	-	512	3,613	87	512	3,700	4,212
Altamonte I	-	1,518	2,661	790	1,518	3,451	4,969
Altamonte II	-	745	2,618	328	745	2,946	3,691
Sunport I	-	555	1,977	555	555	2,532	3,087
Sunport II	-	597	3,271	818	597	4,089	4,686
Sunport III	-	642	3,121	408	642	3,529	4,171
Sunport IV	-	642	2,917	309	642	3,226	3,868
Sunport V	-	750	2,509	1,845	750	4,354	5,104
Sunport VI	-	672	-	3,310	672	3,310	3,982
Southridge I	-	373	-	4,433	701	4,105	4,806
Southridge IV	-	506	-	4,328	776	4,058	4,834
Southridge V	-	382	-	4,152	638	3,896	4,534
Tampa							
56th Street	-	843	3,567	2,232	843	5,799	6,642
Jetport	-	1,575	6,591	2,671	1,575	9,262	10,837
Westport	-	980	3,800	1,949	980	5,749	6,729
Benjamin I & II	-	843	3,963	409	883	4,332	5,215
Benjamin III	-	407	1,503	263	407	1,766	2,173
Palm River Center	-	1,190	4,625	1,027	1,190	5,652	6,842
Palm River North I & III (k)	5,640	1,005	4,688	1,561	1,005	6,249	7,254
Palm River North II (k)	5,175	724	4,418	249	634	4,757	5,391
Palm River South I	-	655	3,187	328	655	3,515	4,170
Palm River South II	-	655	-	4,256	655	4,256	4,911
Walden I	-	337	3,318	273	337	3,591	3,928
Walden II	-	465	3,738	522	465	4,260	4,725
Oak Creek I	1,521	1,110	6,126	206	1,110	6,332	7,442
Airport Commerce	-	1,257	4,012	698	1,257	4,710	5,967
Westlake (k)	7,186	1,333	6,998	929	1,333	7,927	9,260
Expressway II	-	1,013	3,247	101	1,013	3,348	4,361
Oak Creek II	-	647	3,603	409	647	4,012	4,659
Oak Creek IV	4,270	805	6,472	(58)	805	6,414	7,219
Expressway I	-	915	5,346	309	915	5,655	6,570
Fort Lauderdale/ Pompano Beach area							
Linpro	-	613	2,243	1,091	616	3,331	3,947
Cypress Creek	-	-	2,465	1,104	-	3,569	3,569
Lockhart	-	-	3,489	1,835	-	5,324	5,324
Interstate Commerce	-	485	2,652	427	485	3,079	3,564
Sample 95	-	2,202	8,785	1,455	2,202	10,240	12,442

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Blue Heron	-	975	3,626	1,129	975	4,755	5,730
Blue Heron II	1,832	1,385	4,222	684	1,385	4,906	6,291

Executive Airport I & III	-	1,210	4,857	476	1,210	5,333	6,543
Executive Airport II	-	781	-	4,218	781	4,218	4,999
NORTH CAROLINA							
Charlotte							
NorthPark	-	2,758	15,932	-	2,758	15,932	18,690
CALIFORNIA							
San Francisco area							
Wiegman (m)	14,135	2,197	8,788	946	2,308	9,623	11,931
Huntwood (m)	23,608	3,842	15,368	716	3,842	16,084	19,926
San Clemente	-	893	2,004	92	893	2,096	2,989
Yosemite	-	259	7,058	380	259	7,438	7,697
Los Angeles area							
Kingsview (e)	1,681	643	2,573	7	643	2,580	3,223
Dominguez (e)	5,819	2,006	8,025	1,128	2,006	9,153	11,159
Main Street (i)	4,022	1,606	4,103	532	1,606	4,635	6,241
Walnut (e)	4,414	2,885	5,274	306	2,885	5,580	8,465
Washington (e)	3,583	1,636	4,900	334	1,636	5,234	6,870
Ethan Allen (f)	5,045	2,544	10,175	95	2,544	10,270	12,814
Industry (e)	12,224	10,230	12,373	838	10,230	13,211	23,441
Chestnut (i)	3,397	1,674	3,465	132	1,674	3,597	5,271
Los Angeles Corporate Center	-	1,363	5,453	1,141	1,363	6,594	7,957
Santa Barbara							
University Bus. Center	16,047	5,517	22,067	2,048	5,520	24,112	29,632
Fresno							
Shaw (e)	8,002	2,465	11,627	1,252	2,465	12,879	15,344
San Diego							
Eastlake	-	3,046	6,888	1,224	3,046	8,112	11,158
TEXAS							
Dallas							
Interstate I & II (h)	4,908	1,757	4,941	1,515	1,746	6,467	8,213
Interstate III (h)	1,897	520	2,008	646	519	2,655	3,174
Interstate IV	-	416	2,481	10	416	2,491	2,907
Venture (h)	3,858	1,452	3,762	1,243	1,452	5,005	6,457
Stemmons Circle (h)	1,578	363	2,014	263	363	2,277	2,640
Ambassador Row	-	1,156	4,625	1,567	1,156	6,192	7,348
North Stemmons I (i)	2,668	619	3,264	257	619	3,521	4,140
North Stemmons II	-	150	583	181	150	764	914
Shady Trail (k)	3,203	635	3,621	117	635	3,738	4,373
Houston							
Northwest Point (j)	6,422	1,243	5,640	2,143	1,243	7,783	9,026
Lockwood (j)	5,397	749	5,444	1,392	749	6,836	7,585
West Loop (h)	3,995	905	4,383	1,397	905	5,780	6,685
World Houston 1 & 2	4,044	660	5,893	611	660	6,504	7,164
World Houston 3, 4 & 5 (g)	4,963	1,025	6,413	297	1,025	6,710	7,735
World Houston 6 (g)	2,247	425	2,423	55	425	2,478	2,903
World Houston 7 & 8 (g)	5,712	680	4,584	3,231	680	7,815	8,495
World Houston 9 (g)	4,962	800	4,355	1,455	800	5,810	6,610
World							

World Houston 10 (j)	4,068	933	4,779	6	933	4,785	5,718
World Houston 11 (j)	3,594	638	3,764	649	638	4,413	5,051
World Houston 12 (i)	1,895	340	2,419	181	340	2,600	2,940
World Houston 13 (i)	1,879	282	2,569	65	282	2,634	2,916
World Houston 14 (j)	2,667	722	2,629	397	722	3,026	3,748
World Houston 16 (n)	5,086	519	4,248	157	519	4,405	4,924
World Houston 17 (k)	2,799	373	1,945	758	373	2,703	3,076

World Houston 18	-	323	1,512	27	323	1,539	1,862
World Houston 19 (l)	4,060	373	2,256	730	373	2,986	3,359
World Houston 20 (l)	4,863	346	1,948	1,729	1,009	3,014	4,023
World Houston 21	-	436	-	3,427	436	3,427	3,863
America Plaza (g)	3,558	662	4,660	409	662	5,069	5,731
Central Green (g)	3,183	566	4,031	97	566	4,128	4,694
Glenmont (h)	4,908	936	6,161	1,119	936	7,280	8,216
Techway S.W. I (j)	4,067	729	3,765	1,222	729	4,987	5,716
Techway S.W. II (l)	5,496	550	3,689	308	550	3,997	4,547
Techway S.W. III	-	597	-	4,424	751	4,270	5,021
Beltway I (j)	4,955	458	5,712	794	458	6,506	6,964
Kirby (k)	3,143	530	3,153	235	530	3,388	3,918
Clay Campbell	-	742	2,998	42	742	3,040	3,782
El Paso							
Butterfield Trail (h)	15,629	-	22,144	4,013	-	26,157	26,157
Rojas (h)	3,833	900	3,659	1,855	900	5,514	6,414
Americas Ten I (k)	3,090	526	2,778	848	526	3,626	4,152
San Antonio							
Alamo Downs (n)	8,408	1,342	6,338	460	1,342	6,798	8,140
Arion (n)	41,157	4,593	31,432	3,820	4,593	35,252	39,845
Wetmore	-	1,494	10,804	635	1,494	11,439	12,933
ARIZONA							
Phoenix area							
Broadway I (i)	2,967	837	3,349	417	837	3,766	4,603
Broadway II	-	455	482	125	455	607	1,062
Broadway III (i)	1,669	775	1,742	73	775	1,815	2,590
Broadway IV (i)	1,446	380	1,652	212	380	1,864	2,244
Broadway V (j)	1,050	353	1,090	33	353	1,123	1,476
Broadway VI (f)	996	599	1,855	75	599	1,930	2,529
Kyrene	740	850	2,044	349	850	2,393	3,243
Kyrene II	-	640	2,409	312	640	2,721	3,361
Metro	-	1,927	7,708	2,371	1,927	10,079	12,006
35th Avenue (j)	2,115	418	2,381	173	418	2,554	2,972
Estrella	-	628	4,694	197	628	4,891	5,519
51st Avenue (i)	1,760	300	2,029	401	300	2,430	2,730
East University I and II (f)	2,316	1,120	4,482	279	1,120	4,761	5,881
55th Avenue (f)	1,979	912	3,717	396	917	4,108	5,025

Interstate Commons I	-	798	3,632	432	798	4,064	4,862
Interstate Commons II	-	320	2,448	243	320	2,691	3,011
Southpark (i)	2,724	918	2,738	571	918	3,309	4,227
Airport Commons	-	1,000	1,510	178	1,000	1,688	2,688
Santan 10 (n)	3,856	846	2,647	240	846	2,887	3,733
Tucson							
Chamberlain (l)	6,790	506	3,564	1,547	506	5,111	5,617
Airport Dist. (i)	4,443	1,103	4,672	1,117	1,103	5,789	6,892
Southpointe (i)	3,697	-	3,982	1,754	-	5,736	5,736
Benan	-	707	1,842	394	707	2,236	2,943
TENNESSEE							
Memphis							
Air Park I	-	250	1,916	238	250	2,154	2,404
Delp I & III	-	649	2,583	973	649	3,556	4,205
LOUISIANA							
New Orleans							
Elmwood	-	2,861	6,337	2,285	2,861	8,622	11,483
Riverbend	-	2,592	17,623	1,644	2,592	19,267	21,859

COLORADO							
Denver							
Rampart I (n)	5,606	1,023	3,861	543	1,023	4,404	5,427
Rampart II (n)	4,212	230	2,977	871	230	3,848	4,078
Rampart III (n)	6,471	1,098	3,884	1,283	1,098	5,167	6,265
OKLAHOMA							
Oklahoma City							
Northpointe	-	777	3,113	654	999	3,545	4,544
Tulsa							
Braniff	-	1,066	4,641	1,355	1,066	5,996	7,062
MISSISSIPPI							
Interchange (i)	4,454	343	5,007	1,560	343	6,567	6,910
Tower	10,040	-	9,958	1,173	-	11,131	11,131
Metro Airport I	-	303	1,479	685	303	2,164	2,467
	414,405	152,431	669,154	152,325	154,384	819,526	973,910
Industrial Development (d):							
FLORIDA							
Oak Creek III	-	665	-	2,794	665	2,794	3,459
Oak Creek V	-	1,114	-	3,719	1,114	3,719	4,833
Oak Creek A & B	-	512	-	239	512	239	751
Oak Creek Land	-	2,666	-	1,991	3,053	1,604	4,657
Southridge II	-	342	-	3,204	621	2,925	3,546
Southridge III	-	547	-	3,906	873	3,580	4,453
Southridge VI	-	571	-	4,400	843	4,128	4,971
SouthRidge Land	-	4,471	-	3,900	6,393	1,978	8,371
Blue Heron III	-	450	-	235	450	235	685
SunCoast I & II	-	1,822	-	3,456	1,822	3,456	5,278
SunCoast Land	-	3,273	-	3	3,273	3	3,276
SunCoast II Land	-	9,347	-	45	9,351	41	9,392
CALIFORNIA							
Castilian (Redevelopment)	-	2,719	1,410	793	2,719	2,203	4,922
TEXAS							
Techway S.W. IV	-	535	-	1,005	674	866	1,540
World Houston 15	-	731	-	3,795	731	3,795	4,526

World Houston 22	-	436	-	2,634	436	2,634	3,070
World Houston 23	-	910	-	3,587	910	3,587	4,497
World Houston 24	-	838	-	263	838	263	1,101
World Houston 25	-	508	-	137	508	137	645
World Houston Land	-	4,238	-	586	4,238	586	4,824
Beltway II, III, & IV	-	1,335	-	5,818	1,335	5,818	7,153
Beltway Land	-	2,805	-	338	2,805	338	3,143
Americas Ten II & III	-	1,365	-	1,079	1,365	1,079	2,444
Arion 16	-	427	-	1,957	427	1,957	2,384
Arion 17 (n)	3,035	616	-	2,322	616	2,322	2,938
Arion Land	-	628	-	89	628	89	717
Wetmore Land	-	2,518	-	171	2,518	171	2,689
ARIZONA							
SanTan 10 Phase II	-	1,088	-	4,413	1,088	4,413	5,501
40th Street	-	703	-	398	703	398	1,101
Interstate Commons III	-	242	-	331	242	331	573
Sky Harbor Land	-	5,839	-	676	5,839	676	6,515
Airport Dist. II	-	300	-	26	300	26	326
MISSISSIPPI							
Metro Airport II	-	307	-	398	307	398	705
	3,035	54,868	1,410	58,708	58,197	56,789	114,986
Total real estate owned (a)(b)	$ 417,440	207,299	670,564	211,033	212,581	876,315	1,088,896

(a) Changes in Real Estate Properties follow:

	Years Ended December 31,		
	2006	2005	2
	(In thousands)		
Balance at beginning of year.........................	$ 1,021,841	887,506	842
Purchase of real estate properties...................	18,690	71,103	19
Development of real estate properties................	77,666	58,192	19
Improvements to real estate properties...............	13,470	11,262	10
Carrying amount of investments sold..................	(42,485)	(6,034)	(4
Write-off of improvements............................	(213)	(188)	
Other...	(73)	-	
Balance at end of year (1)	$ 1,088,896	1,021,841	887

(1) Includes 20% minority interest in University Business Center totaling $5,926,000 at December 31, 2006 and $5,919,000 at December 31, 2005.

Changes in the accumulated depreciation on real estate properties follow:

	2006	2005	20
	(In thousands)		
Balance at beginning of year.........................	$ 206,427	175,062	146
Depreciation expense................................	35,428	32,693	29
Accumulated depreciation on assets sold..............	(10,630)	(1,234)	
Other...	(119)	(94)	
Balance at end of year	$ 231,106	206,427	175

(b) The estimated aggregate cost of real estate properties at December 31, 2006 for federal income tax purposes was approximately $1,029,961,000 before estimated accumulated tax depreciation of $152,838,000. The federal income tax return for the year ended December 31, 2006 has not been filed and, accordingly, this estimate is based on preliminary data.

(c) The Company computes depreciation using the straight-line method over the estimated useful lives of the buildings (generally 40 years) and improvements (generally 3 to 15 years).

(d) The Company transfers development properties to real estate properties the earlier of 80% occupancy or one year after completion of the shell construction.

(e) EastGroup has a $35,723,000 nonrecourse first mortgage loan with Metropolitan Life secured by Dominguez, Kingsview, Walnut, Washington, Industry and Shaw.

(f) EastGroup has a $10,336,000 nonrecourse first mortgage loan with Prudential Life secured by East University I & II, Broadway VI, 55th Avenue and Ethan Allen.

(g) EastGroup has a $24,625,000 nonrecourse first mortgage loan with New York Life secured by America Plaza, Central Green and World Houston 3-9.

(h) EastGroup has a $40,606,000 nonrecourse first mortgage loan with Metropolitan Life secured by Interstate I, II & III, Venture, Stemmons Circle, Glenmont I & II, West Loop I & II, Butterfield Trail and Rojas.

(i) EastGroup has a $37,021,000 nonrecourse first mortgage loan with Metropolitan Life secured by Airport Distribution, Southpointe, Broadway I, III & IV, Southpark, 51st Avenue, Chestnut, Main Street, Interchange Business Park, North Stemmons I and World Houston 12 & 13.

(j) EastGroup has a $42,163,000 nonrecourse first mortgage loan with Prudential Life secured by Broadway V, 35th Avenue, Sunbelt, Freeport (aka Beltway Crossing I), Lockwood, Northwest Point, Techway Southwest I and World Houston 10, 11 & 14.

(k) EastGroup has a $30,236,000 nonrecourse first mortgage loan with New York Life secured by World Houston 17, Kirby, Americas Ten I, Shady Trail, Palm River North I, II & III and Westlake I & II.

(l) EastGroup has a $37,832,000 nonrecourse first mortgage loan with Prudential

Life secured by Chamberlain, Lake Pointe, Techway Southwest II and World Houston 19 & 20.

(m) EastGroup has a $37,743,000 nonrecourse first mortgage loan with Prudential Life secured by Huntwood and Wiegman.

(n) EastGroup has a $77,831,000 nonrecourse first mortgage loan with Prudential Life secured by Alamo Downs, Arion 1-15 & 17, Rampart I, II & III, Santan 10 and World Houston 16.

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SCHEDULE IV
MORTGAGE LOANS ON REAL ESTATE
DECEMBER 31, 2006

	Number of Loans	Interest Rate	Maturity Date	
Second mortgage loan:				
Madisonville land, Kentucky	1	7.00%	01/12	Principa
Total mortgage loans (c)	1			

	Face Amount of Mortgages Dec. 31, 2006	Carrying Amount of Mortgages	Princi Amount o Subject to Principal o
	(In thousands)		
Second mortgage loan:			
Madisonville land, Kentucky	$ 162	162	
Total mortgage loans	$ 162	162 (a)(b)	

(a) Changes in mortgage loans follow:

	Years Ended December 31, 2006	2005
	(In thousands)	
Balance at beginning of year..............................	$ -	7,550
Advances on mortgage notes receivable.....................	185	-
Payments on mortgage notes receivable.....................	(23)	(7,550)
Balance at end of year....................................	$ 162	-

(b) The aggregate cost for federal income tax purposes is approximately

$162,000.

(c) Reference is made to allowance for possible losses on real estate investments in the notes to consolidated financial statements.

(d) Interest in arrears for three months or less is disregarded in computing principal amount of loans subject to delinquent interest.

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SIGNATURES

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

EASTGROUP PROPERTIES, INC.

By: /s/ DAVID H. HOSTER II

David H. Hoster II, Chief Executive Officer, President & Director
February 28, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

*
D. Pike Aloian, Director
February 26, 2007

*
H. C. Bailey, Jr., Director
February 26, 2007

*
Hayden C. Eaves III, Director
February 26, 2007

*
Fredric H. Gould, Director
February 26, 2007

*
Mary Elizabeth McCormick, Director
February 26, 2007

*
David M. Osnos, Director
February 26, 2007

*
Leland R. Speed, Chairman of the Board
(Principal Executive Officer)
February 26, 2007

/s/ N. KEITH MCKEY
* By N. Keith McKey, Attorney-in-fact
February 28, 2007

/s/ BRUCE CORKERN
Bruce Corkern, Sr. Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)
February 28, 2007

/s/ N. KEITH MCKEY
N. Keith McKey, Executive Vice-President,
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer)
February 28, 2007

EXHIBIT INDEX

The following exhibits are included in this Form 10-K or are incorporated by reference as noted in the following table:

(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 Appendix C to the Company's Proxy Statement for its Annual Meeting of Stockholders held on June 5, 1997).
(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

(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).

(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 (filed herewith). *
(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 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, Annual Long-Term Incentive and 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).*

(n) Credit Agreement dated December 6, 2004 among EastGroup Properties, L.P.; EastGroup Properties, Inc.; PNC Bank, National Association, as Administrative Agent; Commerzbank Aktiengesellschaft, New York Branch and SunTrust Bank as Co-Syndication Agents; AmSouth Bank and Wells Fargo Bank, National Association, as Co-Documentation Agents; PNC Capital Markets, Inc., as Sole Lead Arranger and Sole Bookrunner; and the Lenders (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 2004).

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

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(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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