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IRT PROPERTY CO
Form 10-K/A
April 09, 2002

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

FORM 10-K/A No. 1

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

For the Fiscal Year Ended December 31, 2001

OR

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

For the Transition Period From _____ to _____

Commission File Number 1-7859

IRT PROPERTY COMPANY
(Exact name of registrant as specified in its charter)

GEORGIA
(State of other jurisdiction of
incorporation or organization)

58-1366611
(I.R.S. Employer
Identification Number)

200 GALLERIA PARKWAY, SUITE 1400
ATLANTA, GEORGIA
(Address of principal executive offices)

30339
(Zip Code)

Registrant's telephone number, including area code: (770) 955-4406

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class -----	Name of each exchange on which registered -----
Shares of Common Stock \$1 Par Value	New York Stock Exchange

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

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

Indicate 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.

As of March 15, 2002, the aggregate market value of the 30,217,130 common shares held by nonaffiliates of the registrant was \$348,403,510 based upon the

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closing price of \$11.53 on the New York Stock Exchange composite tape on such date. (For this computation, the registrant has excluded the market value of all common shares reported as beneficially owned by executive officers and directors of the registrant; such exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the registrant.) As of March 15, 2002, there were 30,541,026 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III (Items 10, 11, 12 and 13) of this report is incorporated by reference to the registrant's definitive proxy statement, to be filed pursuant to Regulation 14A (the "Proxy Statement"), for the 2002 Annual Meeting of Shareholders of the Company, to be held on May 30, 2002. Other than those portions of the Proxy Statement specifically incorporated by reference pursuant to Items 10 through 13 of Part III of this report, no other portions of the Proxy Statement shall be deemed so incorporated.

FORM 10-K FISCAL YEAR ENDED DECEMBER 31, 2001 TABLE OF CONTENTS

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PART I

Unless the context otherwise requires, all references to "we," "our" or

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"us" in this report refer collectively to IRT Property Company and its subsidiaries ("IRT" or the "Company"), including IRT Partners, L.P., IRT Management Company, IRT Capital Corporation II, VW Mall, Inc. and IRT Alabama.

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements involve risks and uncertainties. You can identify these forward-looking statements through our use of words such as "may," "will," "intend," "project," "expect," "anticipate," "assume," "believe," "estimate," "continue," or other similar words. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may be beyond our control. Our actual results may differ significantly from those expressed or implied in our forward-looking statements.

Factors that might cause such differences include, but are not limited to:

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

You should also carefully consider any other factors contained in this report, including the information incorporated by reference into this report. You should pay particular attention to those factors discussed in any of our other filings with the Securities and Exchange Commission under the heading "Risk Factors." You should not rely on the information contained in any forward-looking statements, and you should not expect us to update or revise any forward-looking statements.

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ITEM 1. BUSINESS

ORGANIZATION

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IRT Property Company ("IRT" or the "Company") was founded in 1969 and became a public company in May 1971 (NYSE: IRT). The Company is an owner, operator, redeveloper and developer of high quality, well located neighborhood and community shopping centers throughout the southeastern United States. The Company's investment portfolio consists of 87 shopping centers, three shopping center investments, four development properties, one industrial property and four mortgage loans. The 87 shopping centers and the three shopping center investments total approximately 9.7 million square feet of retail space, located in eleven southeastern states. IRT shopping centers are anchored by necessity-oriented retailers such as supermarkets, drug stores, national value retailers and department stores.

The Company has four wholly-owned subsidiaries. VW Mall, Inc. ("VWM") was formed in July 1994, but is currently inactive. IRT Alabama, Inc. ("IRTAL") was formed in August 1997 to purchase Madison Centre in Madison, Alabama, which it continues to own, but it conducts no significant operations beyond this property. IRT Management Company ("IRTMC") was formed in 1990 and currently holds 93.3% of the operating units of IRT Partners L.P.

IRT Capital Corporation II ("IRTCCII") is a taxable real estate investment trust ("REIT") subsidiary formed under the laws of Georgia in 1999. IRTCCII elected on March 15, 2001 to become a taxable REIT subsidiary pursuant to the Tax Relief Extension Act of 1999, as amended (the "REIT Modernization Act of 1999"). Although IRTCCII is primarily used by the company to develop properties, it also has the ability to buy and sell properties, provide equity to developers and perform third-party management, leasing and brokerage operations.

The Company also serves as sole general partner of IRT Partners, L.P. ("LP"), a Georgia limited partnership formed in 1998 to enhance the Company's acquisition opportunities through a "downreit" structure. This structure offers potential sellers the ability to make a tax-deferred sale of their real estate investment in exchange for Operating Partnership Units ("OP Units") of LP. OP Units receive the same distributions as the Company's common stock and are redeemable for shares of the Company's common stock. IRT and IRTMC, together, owned approximately 94.3% of LP as of December 31, 2001. The accounts of LP are included in the consolidated financial statements included in this report.

REIT QUALIFICATION AND SHAREHOLDER TAXATION

The Company has elected since its inception to be treated as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). In accordance with the Code, a REIT must distribute at least 90% (95% prior to 2001) of its taxable income to its shareholders each year and meet certain other qualifications as prescribed by the Code. If all qualifications are met, the Company will not be taxed on that portion of its taxable income which is distributed to its shareholders. This treatment of REIT distributions allows us to pass through substantially all of our earnings to our shareholders without paying federal or state income tax at the corporate level, thus effectively eliminating a significant portion of the double taxation (initially at the corporate level and then again at the shareholder level) that usually results from investments in corporations. For the special provisions applicable to REITs, see Sections 856-860 of the Code. IRT intends to continue to elect to be treated and to continue to qualify as a REIT under the Code.

If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax, at regular corporate tax rates, on its taxable income. The Company may be disqualified from treatment as a REIT for the four taxable years following the year during which REIT qualification is lost.

This would reduce the net earnings of the Company available for investment or

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distribution to our shareholders because of the additional tax liability. In addition, distributions to our shareholders would no longer be required, which would likely substantially reduce or even eliminate any dividends paid by the Company to its shareholders. Even if the Company maintains its qualification for taxation as a REIT, the Company also may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income.

For most of the Company's U.S. shareholders, amounts distributed by the Company out of current accumulated earnings and profits are includable as ordinary income for federal income tax purposes unless properly designated by the Company as capital gain dividends. Generally, if the Company makes distributions in excess of its current and accumulated earnings and profits, those distributions will be considered first a tax-free return of capital, thereby reducing the tax basis of the shareholder's shares until the tax basis is zero. Such distributions in excess of the tax basis will be taxable as gain realized from the sale of the Company's shares.

INVESTMENT PHILOSOPHY

The Company's fundamental business is the ownership of real estate investments in income-producing properties. We concentrate on neighborhood and community shopping centers in the southeastern United States. The Company's investment portfolio includes 87 shopping centers, three shopping center investments, four development properties, one industrial property and four mortgage loans. For a description of the Company's individual investments and material developments during 2001 regarding these investments and the Company as a whole, please refer to Item 2, Item 7 and Item 8 included elsewhere within this report and the Company's Annual Report to Shareholders for the year ended December 31, 2001.

The Company's mission is to maximize growth and long-term real estate value while providing attractive annual returns for our shareholders. The Company seeks to achieve this mission through strategic property location and tenant diversification, developments and capital recycling and acquisitions and dispositions.

Property Location and Tenant Diversification

The Company owns and operates 87 shopping centers in ten states primarily located in Florida (25), Georgia (20), Louisiana (14) and North Carolina (13). We have developed a regional as well as local expertise since operating investments within the southeastern U.S. since 1969.

Within the respective states, over 80% of IRT's properties, based on gross leasable area ("GLA") and rental revenues, are located in primary and secondary markets. IRT defines primary markets as those that have a metropolitan statistical area ("MSA") population of greater than 1 million people. Secondary markets have a MSA population between 250,000 and 1 million. IRT considers markets with MSA population under 250,000 to be tertiary markets. The Company places emphasis on obtaining and maintaining shopping centers in primary or secondary markets and reducing the number of shopping centers in tertiary markets.

On average, within a three mile radius of our shopping centers, there is an estimated population of 44,516 with a median household income of \$43,876. We locate our shopping centers to have clear visibility for our tenants and close to residential communities to allow convenient access by neighborhood shoppers.

The Company emphasizes a diverse and stable tenant base for our shopping centers. We have over 1,000 different tenants with primarily necessity-oriented

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retailers as anchors. Necessity-oriented anchors include supermarkets, such as Publix, Kroger and Bi-Lo; drug stores, such as Eckerds, CVS Drugs and Walgreen's; national value retailers, such as Wal-Mart, Bed Bath & Beyond and Office Depot; and department stores, such as Stein Mart, TJ Maxx and Big Lots. As of December 31, 2001, the Company's five largest tenants, as a percentage of revenues, are Publix (8.6%), Kroger (6.8%), Wal-Mart (4.9%), Kmart (4.5%) and Winn Dixie (2.7%). These necessity oriented retailers help maintain a steady traffic flow for our centers and our tenants.

Developments and Capital Recycling

The Company initiated a development program with the creation of IRTCCII. The Company maintains a conservative approach toward development and manages the development risk primarily by purchasing the land for development only after anchor lease execution and pre-leasing the development before commencement of construction.

During 2001, we completed the first development property, Regency Square, a 85,864 square foot shopping center, located in Port Richey, Florida and anchored by a 44,270 square foot Publix. The Company is in the process of developing four shopping centers for an aggregate of approximately 423,000 square feet and continues to search for other development opportunities.

Existing properties are continuously reviewed by the Company for revenue growth potential. Appropriate programs to renovate and modernize properties are designed and implemented in order to improve leasing arrangements and tenant retention, thereby increasing rental revenues and property values. In addition to the continual investment in the shopping centers, the Company is in the process of three shopping center expansions for a total of 49,887 square feet. The Company mitigates the investment risk by usually extending the anchor's lease term in connection with an expansion.

Acquisitions and Dispositions

In making new real estate investments, the Company intends to continue to place primary emphasis on obtaining an equity interest in well-located, income producing properties with attractive yields and potential for increases in income and capital appreciation. The Company focuses on neighborhood and community shopping centers, primarily in the southeastern United States; however, the company will consider acquisitions in other regions. Also, the Company continually reviews, considers and evaluates mergers and acquisitions with companies engaged in businesses similar or complementary to ours.

The Company also considers the disposition or exchange of existing investments in order to improve its investment portfolio. During 1999, the Company identified those investments that are in tertiary markets and focused its efforts to sell these properties. During 1999, 2000 and 2001 the Company has four, five and three shopping centers, respectively, for approximately \$37.8 million.

OPERATING PHILOSOPHY

The Company directly provides property management and leasing services for all of its operating properties. Self-management enables the Company to emphasize and more closely control leasing and property management. Internal property management also provides the Company opportunities for operating efficiencies by enabling it to acquire additional properties without proportionate increases in property management expenses. The Company's property management program is staffed by property management and leasing professionals located in offices in Atlanta, Georgia; Orlando, Florida; Ft. Lauderdale, Florida and New Orleans, Louisiana. During 2000, the Company upgraded its internal systems to allow information access for all southeastern locations,

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thereby improving communication and information transmittal between the regional offices and corporate headquarters.

The Company has principal offices in Atlanta, Georgia and presently employs a total of 63 people located in its four southeastern locations. Since its founding in 1969, the Company has successfully operated and grown through three major real estate recessions. The Company believes its management has the experience and expertise necessary to preserve values and enhance future operating performance.

FINANCIAL PHILOSOPHY

Maintaining a conservative capital structure that allows the Company continued cost-effective access to the capital markets is an important element of the Company's growth strategy. The Company believes its financial position as of December 31, 2001, including the following measures, demonstrates management's discipline in applying conservative capital policies:

- Long-term variable rate debt was 16.0% of total market capitalization.
- Unencumbered real estate assets as a percentage of real estate investments at cost was 66% as only 25 out of the 90 shopping center investments were encumbered.

The Company currently has an effective shelf registration statement pursuant to which the Company may issue up to \$300 million of common stock, preferred stock, depositary shares, debt securities and warrants. As of December 31, 2001, the Company had issued \$50 million in debt securities from the shelf registration, and the Company issued an additional \$25 million of debt securities in January 2002, leaving \$225 million of securities available for issuance under the shelf registration statement.

The Company presently anticipates that cash flows from operations will continue to provide adequate capital to fund its operating and administrative expenses, regular debt service obligations and the payment of dividends. The Company intends to finance future acquisitions and developments with additional secured or unsecured borrowings, its revolving credit facility, proceeds from property sales, the issuance of OP Units of LP or the issuance of common or preferred stock of the Company. The Company intends to closely monitor and review such financing activity to ensure compliance with certain covenants and restrictions and to maintain the Company's investment grade bond rating.

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INDUSTRY AND COMPETITIVE CONDITIONS

The results of the Company's operations depend upon the performance of its existing investment portfolio, the availability of suitable opportunities for new investments, the yields available on such new investments and the Company's cost of capital. Yields will vary with the type of investment involved, the condition of the financial and real estate markets, the nature and geographic location of the investment, competition and other factors. The performance of a real estate investment company is strongly influenced by the cycles of the real estate industry. As financial intermediaries providing equity funds for real estate projects, real estate investment companies are generally subject to the same market and economic forces as other real estate investors.

In seeking new investment opportunities, the Company competes with other real estate investors, including pension funds, foreign investors, real estate partnerships, other real estate investment trusts and other domestic real estate companies, such as Weingarten Realty Investors, Regency Realty Corporation, JDN Realty Corporation and Equity One, Inc. With respect to properties presently owned by the Company or in which it has investments, the Company and its tenants

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and borrowers compete with other owners of like properties, such as Weingarten Realty Investors, Regency Realty Corporation, JDN Realty Corporation and Equity One, Inc., for tenants and/or customers depending on the nature of the investment. Management believes that the Company is well positioned to compete effectively for new investments and tenants.

For any borrowed funds that may be used in new investment activity, the Company would be in competition with other borrowers seeking both secured and unsecured borrowings in the banking, real estate lending and public debt markets.

REGULATION

The Company is subject to federal, state and local environmental regulations regarding the ownership, development and operation of real property. The Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. sec. 9601 et seq, as amended. ("CERCLA"), and applicable state laws subject the owner of real property to claims or liability for the costs of removal or remediation of hazardous substances that are disposed of on real property in amounts that require removal or remediation. Liability under CERCLA and applicable state superfund laws can be imposed on the owner of real property or the operator of a facility without regard to fault or even knowledge of the disposal of hazardous substances. The failure to undertake remediation where it is necessary may adversely affect the owner's ability to sell real estate or borrow money using such real estate as collateral. In addition to claims for cleanup costs, the presence of hazardous substances on a property could result in claims by private parties for personal injury or property damage.

The Company has obtained independent Phase I environmental site assessments (which generally do not include environmental sampling, monitoring or laboratory analysis) for property acquisitions beginning in 1989, and otherwise as required by its lenders. Except as otherwise disclosed and based upon information presently available to the Company, the Company presently has no reason to believe that any environmental contamination has occurred nor any violation of any applicable environmental law, statute, regulation or ordinance exists that would have a material adverse effect on the Company's financial position taken as a whole. For the years commencing January 1, 2000, the Company has acquired environmental and pollution legal liability insurance coverage to mitigate the associated risks.

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RISK FACTORS

Set forth below are some of the risks that management believes are material to investors in the Company's common stock ("Shares") or the OP Units, which are redeemable on a one-for-one basis for Shares or their cash equivalent. We refer to the Shares and the OP Units together as our "Securities," and the investors who own Shares or OP Units as our "Security Holders."

OWNING AND OPERATING RETAIL REAL ESTATE ENTAILS RISKS THAT COULD ADVERSELY AFFECT OUR PERFORMANCE

Dependence on the Retail Industry. Our properties consist predominately of community and neighborhood shopping centers and we depend upon Companies in the retail industry to occupy our properties. The market for retail space may be adversely affected by consolidation of retailers, the relatively weak financial condition of certain retailers and overbuilding in certain markets.

Internet Sales. Retail sales over the Internet have been increasing rapidly. The success of electronic commerce businesses in attracting customers of our tenants could adversely affect our tenants and other companies, and thus the

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demand for retail space. A reduction in the demand for retail space would adversely affect our performance.

Major Tenants. As of December 31, 2001, the Company's five largest tenants, as a percentage of revenues, are Publix (8.6%), Kroger (6.8%), Wal-Mart (4.9%), Kmart (4.5%) and Winn Dixie (2.7%). We could be adversely affected if any of our major tenants experienced a significant downturn in its business or failed to renew its leases as they expired. A downturn in the business of other significant tenants could also affect us adversely; however, as of December 31, 2001, we received no more than 1.2% of our annualized base rental revenue from any other single tenant.

Bankruptcy of Tenants. A financially troubled tenant could seek the protection of the bankruptcy laws, which might result in rejection and termination of the tenant's lease. Whether or not a financially troubled tenant seeks the protection of the bankruptcy laws, we could experience delays and incur significant costs and delays in enforcing our rights against a financially troubled tenant that does not pay its rent when due.

In October 1999, a grocery anchor, Jitney Jungle, filed for reorganization under Chapter 11 of the United States Bankruptcy Code. At the time of filing, the Company had leases with Jitney Jungle at 10 store locations. Jitney Jungle disavowed two of these leases at the time of the bankruptcy filing. During 2000, Jitney Jungle rejected three additional leases, and in January 2001 the remaining five leases were rejected by the bankruptcy court. As of December 31, 2001, of the 10 original Jitney Jungle locations, three are fully leased to grocery operators, two are fully leased to other national tenants and one is partially leased to a national tenant. The Company is negotiating with retailers for three of the remaining four locations.

Subsequent to December 31, 2001, on January 22, 2002, one of the Company's anchor tenants, Kmart Corporation, filed for bankruptcy protection. The Company has eight stores leased to Kmart which accounted for 4.5% of the Company's total revenues for the year ended December 31, 2001. On March 8, 2002, Kmart Corporation announced nationwide store closings that included two stores in IRT's portfolio. The two stores, located at Pinhook Plaza and Siegen Village in Louisiana, are scheduled to close when store-closing inventory sales are completed. Rental income from these two stores in 2001 was approximately \$730,000, including base rents and all related charges of property taxes and common area maintenance. The Company is aggressively marketing these locations to prospective tenants and believes the revenue lost when the stores close will not have a material adverse affect on the Company.

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Other tenants have also filed for protection under bankruptcy laws, however; the Company presently believes the financial losses are not significant with regard to the Company's overall portfolio of tenants.

Vacancies and Lease Renewals. Our anchor tenants' leases generally have terms of up to 20 years, often with one or more renewal options. We may not be able to find a replacement tenant at the end or nonrenewal of a lease. The space may remain vacant or may be re-leased at terms that vary materially and unfavorably from the original terms.

Tenant Closings. Certain leases permit the tenant to close its operations at the leased location. Although the tenant would still be responsible for its rental obligations, any rents based on the sales of that tenant could be lost. Such a closure could adversely affect customer traffic as well as the business of, and revenues received from, other tenants at a shopping center. Rental rates and occupancy may also be affected adversely at such a center.

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DEVELOPMENT AND CONSTRUCTION RISKS COULD IMPACT OUR PERFORMANCE

The Company has begun to develop shopping centers to enhance the value of our portfolio. The Company may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs. We also may incur construction costs for a property that exceeds original estimates due to increased materials, labor or other costs, which would make completion of the property uneconomical and the Company may not be able to increase rents to compensate for the increase in construction costs. Because occupancy rates and rents at a newly developed shopping center may fluctuate depending on a number of factors, including market and economic conditions, the Company may be unable to meet its profitability goals for that shopping center.

REAL ESTATE INDUSTRY RISKS MAY AFFECT OUR PERFORMANCE

Concentration in the Southeast. Most of our real estate portfolio is located in the southeastern United States. This region has experienced rapid growth in recent years; however, this growth may not continue. Our business could be adversely affected generally by changes in the region's growth and economic condition.

Uncertainty of Meeting Acquisition Objectives. We continually seek additional shopping centers and portfolios of shopping centers. We seek purchases with attractive initial yields and/or which may enhance our revenues and funds from operations through renovation, development, expansion and re-leasing programs. We also regularly evaluate and consider mergers and acquisitions with companies engaged in businesses similar or complementary to ours. However, we may not be able to meet our acquisition goals and cannot assure you that any acquisition will increase our revenues or funds from operations or result in a certain yield. In addition, we incur certain internal and external costs evaluating possible transactions, many of which are not recoverable when the transaction does not close.

Competition. We compete with numerous other real estate companies. Other retail properties within our markets compete with us for tenants. The location and number of competitive retail properties could affect the Company's occupancy levels and rental increases.

Other real estate companies compete with us for development, redevelopment and acquisition opportunities. Such competitors may be willing and able to pay more for such opportunities than we would. This may increase the prices sought by sellers of these properties.

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ENVIRONMENTAL PROBLEMS ARE POSSIBLE AND COULD BE COSTLY

Possible Environmental Liabilities. An owner or operator of real estate may be liable for the costs of removal of the releases of certain hazardous or toxic substances. The presence of hazardous or toxic substances on or near our properties, or the failure to properly clean them up, may adversely affect our ability to sell or rent the property or to use such property as collateral for our borrowings. Corrective costs could adversely affect our financial condition and performance.

Lack of Environmental Analyses. The Company has obtained independent Phase I environmental site assessments for property acquisitions beginning in 1989 and otherwise as required by its lenders. A Phase I assessment, however, has not been obtained for several properties. Moreover, Phase I assessments generally do not include environmental sampling, monitoring or laboratory analysis. As a result, there may be environmental contamination at our properties of which we

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are unaware. For the years commencing January 1, 2000, the Company has acquired environmental and pollution legal liability insurance coverage to mitigate the associated risks. However, there is no assurance that this insurance will be adequate to protect the Company against unforeseen liabilities, which could adversely affect the Company's performance and financial condition.

Presence of Dry Cleaning Solvents. A number of Company properties include facilities leased to dry cleaners. At some of these properties, dry cleaning solvents have been discovered in soil and or groundwater. In each such instance either the amount detected was below reportable limits or the state regulatory authority has informed the Company that no further enforcement action would be taken. In Florida, the state regulatory authority has admitted the affected Company property into the state-sponsored fund responsible for the clean up of dry cleaning spills. Neither the admission of a property into the Florida fund nor the assurances of the relevant state regulatory authority ensures that the Company will not incur additional costs or penalties associated with corrective action.

COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT AND OTHER LAWS MAY BE COSTLY

Our properties must comply with the federal Americans with Disabilities Act of 1990, as amended (the "ADA"). This law requires that disabled persons must be able to enter and use public properties like our shopping centers. The ADA, or other federal, state and local laws may require us to modify our properties, which may adversely affect our financial performance, and may limit renovations. If we fail to obey such laws, we may pay fines or damages.

SOME POTENTIAL LOSSES ARE NOT COVERED BY INSURANCE

We carry comprehensive liability, fire, extended coverage and rental loss insurance on all of our properties. We believe this insurance coverage is reasonably adequate. Certain types of losses, such as lease and other contract claims, generally are not insured. Should an uninsured loss or a loss in excess of insured limits occur, we could lose some or all of our investment in a property, and the anticipated future revenue from the property could be adversely affected. Notwithstanding any such loss, we would still owe mortgage debt or other financial obligations related to the property.

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OUR PERFORMANCE IS SUBJECT TO RISKS ASSOCIATED WITH DEBT FINANCING

At December 31, 2001, we had \$334 million in long-term debt. On December 31, 2001, our debt-to-total market capitalization ratio was 51% without giving effect to the conversion of the subordinated debentures or the OP Units, and 47% assuming conversion of our subordinated debentures and the OP Units held by unaffiliated persons. Of our long-term debt, 40.3% was secured by mortgages on our properties. If the Company was unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all with a consequent loss of revenues and asset value to the Company. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering the Company's ability to meet the REIT distribution requirements of the Code. We must pay our debts on time. Interest and principal on the Company's debt must be paid before dividends can be paid to shareholders. We may not be able to refinance existing indebtedness on favorable terms.

We are obligated on floating rate debt, and historically have not used interest rate protection instruments. If we do not hedge our exposure to increases in interest rates through interest rate protection or cap agreements, increases in rates may reduce cash flow and our ability to service our debt. Our organizational documents place no limit on the amount of indebtedness we may

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incur.

SECURITY HOLDERS MAY BE ADVERSELY AFFECTED BY THE DILUTION OF COMMON STOCK

The Company may issue additional Shares or OP Units without Security Holder approval. Additionally, each OP Unit may be redeemed by the holder for one share of common stock or, at our option, the cash value of one share of common stock. Such issuances may dilute your interest in the Company.

OUR LIQUIDITY IS SUBJECT TO THE RESTRICTIONS ON SALES OF CERTAIN PROPERTIES

We have agreements that limit our sale of certain properties acquired by LP in exchange for OP Units for up to 10 years. We may enter into similar agreements in the future with future sellers of properties that take OP Units in exchange for transferring properties to LP. These agreements may prevent sales of properties that could be advantageous to our Security Holders.

THE ABILITY TO EFFECT CHANGES IN CONTROL OF THE COMPANY MAY BE LIMITED

Certain provisions of the law, our charter documents and Company policies may have the effect of delaying or preventing a change in control of the Company or other transaction that could, if consummated, provide investors with a premium over the then-prevailing market price of the Company's securities. These provisions include the ownership limit described below and the Company's Shareholders' Rights Plan. Also, any future series of preferred stock may have certain voting or other provisions that could delay, deter or prevent a change of control or other transaction that might involve a premium price or otherwise be of benefit to other equity interests in the Company. For a description of the Company's Shareholders Rights Plan, see the Company's Current Report on Form 8-K dated August 21, 1998.

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THE COMPANY IS SUBJECT TO OWNERSHIP LIMITS AND CERTAIN ADVERSE EFFECTS OF FAILING TO QUALIFY AS A REIT

Concentration of Ownership of the Company is Limited. In order to qualify as a REIT under the Code, we must satisfy various tests related to the sources and amounts of our income, the nature of our assets and our stock ownership. For example, not more than 50% in value of the outstanding shares of the Company may be owned, directly or indirectly, by five or fewer individuals. Our charter authorizes our directors to take such action as may be required to preserve our qualification as a REIT, including, but not limited to, limits on the ownership of our securities. These limits may have the effect of delaying, deferring or preventing a change in control of the Company.

REIT Investment Limitations. To qualify as a REIT under the Code, we must hold certain types of real estate and other investments. This limits our ability to diversify our assets outside of real estate.

Adverse Effects of Failing to Qualify as a REIT. If the Company fails to qualify as a REIT under the Code, it will be subject to income taxes on its taxable income. The Company also may be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This would reduce the net earnings of the Company available for investment or distribution to Security Holders because of the additional tax liability for the year(s) involved. In addition, distributions to our Security Holders would no longer be required, which would likely substantially reduce, or even eliminate, any dividends paid by the Company to its shareholders.

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ITEM 2. PROPERTIES
(In thousands, except for square footage)

The following tables and notes thereto describe the properties in which the Company had investments at December 31, 2001, as well as the mortgage indebtedness to which the Company's investments were subject. These tables should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

I. EQUITY INVESTMENTS (LAND AND BUILDINGS)

The Company had a fee or leasehold interest in land and improvements thereon as follows:

DESCRIPTION	DATE ACQUIRED	GROSS LEASEABLE AREA	PERCENT LEASED 12/31/01	YEAR COMPLETED
SHOPPING CENTERS				
Alafaya Commons Orlando, FL	11/96	120,586 sq. ft.	96%	1987
Ambassador Row Lafayette, LA	12/94	193,982 sq. ft.	99%	1980 & 1991
Ambassador Row - Courtyards Lafayette, LA	12/94	155,483 sq. ft.	81%	1986 & 1991
Asheville Plaza (3) Asheville, NC	4/86	49,800 sq. ft.	100%	1967
Bay Pointe Plaza (3) St. Petersburg, FL	12/98	97,390 sq. ft.	96%	1998
Bluebonnet Village Baton Rouge, LA	12/94	90,215 sq. ft.	98%	1983
The Boulevard Lafayette, LA	12/94	68,012 sq. ft.	64%	1976 & 1994
Carrollwood Center (3) Tampa, FL	11/01	96,243 sq. ft.	85%	1971 & 1996
Centre Point Plaza (3) Smithfield, NC	12/92 & 12/93	163,642 sq. ft.	100%	1989 & 1993
Charlotte Square (3) Port Charlotte, FL	8/98	96,188 sq. ft.	92%	1998
Chastain Square Atlanta, GA	12/97	87,815 sq. ft.	100%	1981 & 2001
Chelsea Place New Port Richey, FL	7/93	81,144 sq. ft.	100%	1992
Chestnut Square (3) Brevard, NC	1/92	39,640 sq. ft.	100%	1985
Colony Square Fitzgerald, GA	2/88	50,000 sq. ft.	100%	1987
Commerce Crossing Commerce, GA	12/92	100,668 sq. ft.	100%	1988
Country Club Plaza Slidell, LA	1/95	64,686 sq. ft.	92%	1982
Countryside Shops Cooper City, FL	6/94	173,161 sq. ft.	97%	1986, 1988 & 1991
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The Crossing Slidell, LA	12/94	113,989 sq. ft.	100%	1988 & 1993
Daniel Village Augusta, GA	3/98	164,549 sq. ft.	92%	1988

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Douglas Commons Douglasville, GA	8/92	97,027	sq. ft.	100%	1998
Elmwood Oaks Harahan, LA	1/92	130,284	sq. ft.	100%	1989
Fairview Oaks Ellenwood, GA	6/97	77,052	sq. ft.	100%	1997
Forest Hills Centre (3) Wilson, NC	8/90	74,180	sq. ft.	97%	1990 & 1995
Forrest Gallery (3) Tullahoma, TN	12/92	214,450	sq. ft.	97%	1987
The Galleria (3) Wrightsville Beach, NC	8/86 & 12/87	92,344	sq. ft.	88%	1986, 1990 & 1996
Grassland Crossing Alpharetta, GA	2/97	90,906	sq. ft.	96%	1996
Greenwood Palm Springs, FL	7/97	128,532	sq. ft.	91%	1982 & 1994
Gulf Gate Plaza Naples, FL	6/79	174,566	sq. ft.	88%	1969 & 1974
Heritage Walk Milledgeville, GA	6/93	159,991	sq. ft.	100%	1991 & 1992
Lancaster Plaza Lancaster, SC	4/86	77,400	sq. ft.	91%	1971
Lancaster Shopping Center Lancaster, SC	8/86 & 12/87	29,047	sq. ft.	89%	1963 & 1987
Lawrence Commons (3) Lawrenceburg, TN	8/92	52,295	sq. ft.	98%	1987
Lexington Shopping Center Lexington, VA	6/88 & 6/89	36,535	sq. ft.	100%	1981 & 1989
Mableton Crossing Mableton, GA	6/98	86,819	sq. ft.	96%	1998
MacLand Pointe Marietta, GA	1/93	79,699	sq. ft.	98%	1992 & 1993
Madison Centre Huntsville, AL	8/97	64,837	sq. ft.	96%	1997
Market Place Norcross, GA	4/97	73,686	sq. ft.	42%	1976
McAlpin Square (2) Savannah, GA	12/97	176,807	sq. ft.	96%	1979
Millervillage Baton Rouge, LA	12/94	94,559	sq. ft.	33%	1983 & 1992
New Smyrna Beach Regional New Smyrna Beach, FL	8/92	118,451	sq. ft.	88%	1987

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North River Village Ellenton, FL	12/92 & 12/93	177,128	sq. ft.	100%	1988 & 1993
North Village Center (1) North Myrtle Beach, SC	8/86	60,356	sq. ft.	98%	1984
Old Kings Commons Palm Coast, FL	5/88	84,759	sq. ft.	100%	1988
Parkmore Plaza Milton, FL	12/92	159,067	sq. ft.	68%	1986 & 1992
Paulding Commons Dallas, GA	8/92	192,391	sq. ft.	99%	1991
Pensacola Plaza Pensacola, FL	7/86	56,098	sq. ft.	100%	1985
Pine Ridge Square (3) Coral Springs, FL	12/00	117,399	sq. ft.	100%	1986
Pinhook Plaza Lafayette, LA	12/94	192,501	sq. ft.	70%	1979 & 1992
Plaza Acadienne (2)	12/94	105,419	sq. ft.	98%	1980

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Eunice, LA Plaza North (3) Hendersonville, NC	8/92	47,240	sq. ft.	95%	1986
Powers Ferry Plaza Marietta, GA	5/97	83,101	sq. ft.	91%	1979 & 1983
Providence Square (3) Charlotte, NC	12/71	85,930	sq. ft.	96%	1973
Regency Square Port Richey, FL	3/01	85,864	sq. ft.	87%	2001
Riverside Square (3) Coral Springs, FL	8/98	103,241	sq. ft.	90%	1998
Riverview Shopping Center (3) Durham, NC	3/72	130,058	sq. ft.	91%	1973 & 1974
Salisbury Marketplace (3) Salisbury, NC	9/96	76,970	sq. ft.	87%	1987
Scottsville Square Bowling Green, KY	8/92	38,450	sq. ft.	94%	1986
Seven Hills Spring Hill, FL	7/93	64,590	sq. ft.	100%	1991
Shelby Plaza (2) (3) Shelby, NC	4/86	103,000	sq. ft.	100%	1972
Sherwood South Baton Rouge, LA	12/94	75,607	sq. ft.	98%	1972, 1988 & 1992
Shipyards Plaza Pascagoula, MS	4/88	66,857	sq. ft.	100%	1987
Shoppes of Lago Mar (3) Miami, FL	2/99	82,613	sq. ft.	92%	1995
Shoppes of Silverlakes Pembroke Pines, FL	11/97	126,638	sq. ft.	93%	1995 & 1996

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Siegen Village Baton Rouge, LA	12/94	174,578	sq. ft.	100%	1988 & 1996
Smyrna Village (3) Smyrna, TN	8/92	83,334	sq. ft.	97%	1992
Smyth Valley Crossing Marion, VA	12/92	126,841	sq. ft.	100%	1989
South Beach Regional Jacksonville Beach, FL	8/92	289,319	sq. ft.	94%	1990 & 1991
Spalding Village Griffin, GA	8/92	235,318	sq. ft.	98%	1989
Spring Valley Columbia, SC	3/98	75,415	sq. ft.	98%	1998
Stadium Plaza Phenix City, AL	8/92	70,475	sq. ft.	98%	1988
Stanley Market Place (3) Stanley, NC	1/92	40,364	sq. ft.	89%	1980 & 1991
Tamarac Town Square (3) Tamarac, FL	8/98	124,685	sq. ft.	94%	1998
Tarpon Heights Galliano, LA	1/95	56,605	sq. ft.	50%	1982
Thomasville Commons Thomasville, NC	8/92	148,754	sq. ft.	100%	1991
Town & Country Kissimmee, FL	1/98	71,283	sq. ft.	96%	1998
Treasure Coast Plaza (3) Vero Beach, FL	5/98	133,781	sq. ft.	96%	1998
Unigold Shopping Center (3) Orlando, FL	4/01	102,985	sq. ft.	94%	1987
Venice Plaza (1) Venice, FL	6/79	155,987	sq. ft.	88%	1971 & 1979

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Village at Northshore Slidell, LA	12/94	144,373	sq. ft.	100%	1988 & 1993
Walton Plaza Augusta, GA	8/98	43,460	sq. ft.	100%	1991
Waterlick Plaza Lynchburg, VA	10/89	98,694	sq. ft.	79%	1973 & 1988
Watson Central Warner Robins, GA	12/92 & 10/93	227,747	sq. ft.	90%	1989 & 1993
Wesley Chapel Crossing Decatur, GA	12/92	170,792	sq. ft.	100%	1989
West Gate Plaza Mobile, AL	6/74 & 1/85	64,378	sq. ft.	100%	1974 & 1995
West Towne Square Rome, GA	3/90	89,596	sq. ft.	88%	1988
Williamsburg at Dunwoody (3) Dunwoody, GA	3/99	44,928	sq. ft.	92%	1983

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Willowdaile Shopping Center (3) Durham, NC	8/86 & 12/87	120,815	sq. ft.	80%	1986
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Total Shopping Centers		9,346,444	sq. ft.		
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INDUSTRIAL PROPERTIES

Industrial Buildings Charlotte, NC	6/79	188,513	sq. ft.	79%	1956 & 1963
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DEVELOPMENT PROPERTIES

Conway Crossing Orlando, FL	6/79	6,000	sq. ft.	-	1972
Lutz Lake Crossing Tampa, FL	9/00	68,000	sq. ft.	-	-
Miramar Miami, FL	6/99	185,000	sq. ft.	-	-
Shops at Huntcrest Lawrenceville, GA	9/01	97,000	sq. ft.	-	-

Total Development Properties		356,000	sq. ft.		
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TOTAL EQUITY INVESTMENTS IN

LAND AND BUILDINGS		9,890,957	sq. ft.		
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