

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

SIZELER PROPERTY INVESTORS INC
Form 10-Q
May 11, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 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 1-9349

SIZELER PROPERTY INVESTORS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

72-1082589
(I.R.S. Employer
Identification No.)

2542 WILLIAMS BOULEVARD, KENNER, LOUISIANA
(Address of principal executive offices)

70062
(Zip code)

Registrant's telephone number, including area code: (504) 471-6200

Former name, former address and former fiscal year, if changed since last report.

Indicate by Check X 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

8,200,000 shares of Common Stock (\$.01 Par Value) were outstanding as of

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

May 4, 2001.

Page 1 of 1

SIZELER PROPERTY INVESTORS, INC. AND SUBSIDIARIES

INDEX

	PAGE

Part I: FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7 - 9
Item 3. Quantitative and Qualitative Disclosures about Market Risk	9
Part II: OTHER INFORMATION	
Item 1. Legal Proceedings	9
Item 2. Changes in Securities	10
Item 3. Defaults upon Senior Securities	10
Item 4. Submission of Matters to a Vote of Security Holders	10
Item 5. Other Information	10
Item 6. Exhibits and Reports on Form 8-K	10
SIGNATURE	10

2

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

SIZELER PROPERTY INVESTORS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31 2001 (Unaudited)	December 31 2000 (Audited)
	-----	-----
Real estate investments (Note A):		
Land	\$ 53,003,000	\$ 52,461,000

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

Buildings and improvements, net of accumulated depreciation of \$79,395,000 in 2001 and \$76,727,000 in 2000	217,840,000	219,571,000
Investment in real estate partnership	918,000	916,000
	271,761,000	272,948,000
Cash and cash equivalents	776,000	1,896,000
Accounts receivable and accrued revenue, net of allowance for doubtful accounts of \$304,000 in 2001 and \$331,000 in 2000	2,338,000	2,035,000
Prepaid expenses and other assets	9,174,000	8,538,000
	\$284,049,000	\$285,417,000
Total Assets	\$284,049,000	\$285,417,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable (Note C)	\$112,629,000	\$113,163,000
Notes payable	36,913,000	35,716,000
Accounts payable and accrued expenses	4,976,000	6,701,000
Tenant deposits and advance rents	862,000	840,000
	155,380,000	156,420,000
Convertible subordinated debentures	61,878,000	61,878,000
	217,258,000	218,298,000
Total Liabilities	217,258,000	218,298,000
SHAREHOLDERS' EQUITY		
Preferred stock, 6,000,000 shares authorized, none issued	---	---
Common stock, par value \$.01 per share, 30,000,000 shares authorized, shares issued and outstanding - 9,439,000 in 2001 and 9,329,000 in 2000	94,000	93,000
Additional paid-in capital	131,272,000	130,397,000
Cumulative net income	40,380,000	39,713,000
Cumulative distributions paid	(93,778,000)	(91,907,000)
	77,968,000	78,296,000
Treasury shares, at cost, 1,266,000 shares in 2001 and in 2000	(11,177,000)	(11,177,000)
	66,791,000	67,119,000
Total Shareholders' Equity	66,791,000	67,119,000
Total Liabilities and Shareholders' Equity	\$284,049,000	\$285,417,000

See notes to consolidated financial statements.

3

SIZELER PROPERTY INVESTORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

Quarter Ended March 31

2001	2000
------	------

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

OPERATING REVENUE		
Rental and other income	\$13,125,000	\$12,634,000
Equity in income of partnership	31,000	31,000
	-----	-----
	13,156,000	12,665,000
	-----	-----
OPERATING EXPENSES		
Management and leasing fees	658,000	706,000
Utilities	564,000	448,000
Real estate taxes	988,000	947,000
Administrative expenses	645,000	753,000
Operations and maintenance	1,933,000	1,864,000
Other operating expenses	890,000	621,000
Depreciation and amortization	2,833,000	2,769,000
	-----	-----
	8,511,000	8,108,000
	-----	-----
INCOME FROM OPERATIONS	4,645,000	4,557,000
Interest expense	3,982,000	3,931,000
	-----	-----
NET INCOME	\$ 663,000	\$ 626,000
	=====	=====
BASIC AND DILUTED EARNINGS		
PER SHARE	\$ 0.08	\$ 0.08
	=====	=====
WEIGHTED AVERAGE		
COMMON SHARES OUTSTANDING	8,107,000	7,901,000
	=====	=====

See notes to consolidated financial statements.

4

SIZELER PROPERTY INVESTORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Quarter Ended March 31	
	2001	2000
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 663,000	\$ 626,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,833,000	2,769,000
(Increase) decrease in accounts receivable and accrued revenue	(298,000)	292,000
Increase in prepaid expenses and other assets	(112,000)	(6,000)
Decrease in accounts payable and accrued expenses	(1,721,000)	(3,168,000)
	-----	-----
Net Cash Provided by Operating Activities	1,365,000	513,000
	-----	-----

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

INVESTING ACTIVITIES:

Acquisitions of and improvements to real estate investments	(1,484,000)	(2,572,000)
	-----	-----
Net Cash Used in Investing Activities	(1,484,000)	(2,572,000)
	-----	-----

FINANCING ACTIVITIES:

Principal payments on mortgage notes payable	(534,000)	(448,000)
Net proceeds on notes payable to banks	1,197,000	4,256,000
Increase in mortgage escrow deposits and debt issuance costs	(669,000)	(462,000)
Cash dividends to shareholders	(1,871,000)	(1,738,000)
Proceeds from issuance of shares of common stock pursuant to direct stock purchase, stock option, and stock award plans	876,000	565,000
Purchases of Company's common stock	-	(713,000)
	-----	-----
Net cash (used in) provided by financing activities	(1,001,000)	1,460,000
	-----	-----
Net decrease in cash and cash equivalents	(1,120,000)	(599,000)
Cash and cash equivalents at beginning of period	1,896,000	1,337,000
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 776,000	\$ 738,000
	=====	=====
Cash interest payments, net of capitalized interest	\$ 5,526,000	\$ 5,087,000
	=====	=====

See notes to consolidated financial statements

5

SIZELER PROPERTY INVESTORS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2001

NOTE A -- BASIS OF PRESENTATION

As of March 31, 2001, the Company's real estate portfolio included interest in sixteen shopping centers and fourteen apartment communities. The Company holds, directly or indirectly through both wholly-owned subsidiaries and majority-owned entities, a fee interest in twenty-eight of its properties, and long-term ground leases on the remaining two properties - Southwood Shopping Center in Gretna, Louisiana and Westland Shopping Center in Kenner, Louisiana. Sixteen properties are held through partnerships and limited partnerships whereby the majority owner is a wholly-owned subsidiary of Sizeler Property Investors, Inc. The minority interests in these entities are held by third party corporations who have contributed capital for their respective interests. The other fourteen properties in the portfolio are held through wholly-owned subsidiary corporations and limited liability companies. The Company, the wholly-owned subsidiaries and majority-owned partnerships and limited partnerships, are referred to collectively as the "Company".

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Furthermore, the preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

Operating results for the three-month period ended March 31, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. The consolidated balance sheet at December 31, 2000, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Sizeler Property Investors, Inc. Annual Report on Form 10-K for the year ended December 31, 2000.

NOTE B -- RECLASSIFICATIONS

Certain reclassifications have been made in the 2000 Consolidated Financial Statements to conform with the 2001 financial statement presentation.

NOTE C -- MORTGAGE NOTES PAYABLE

The Company's mortgage notes payable are secured by certain land, buildings and improvements. At March 31, 2001, mortgage notes payable totalled approximately \$112.6 million. Individual notes ranged from \$937,000 to \$20.1 million, with fixed rates of interest ranging from 6.85% to 8.63% and maturity dates ranging from September 30, 2001, to January 1, 2013. Net book values of properties securing these mortgage notes payable totalled approximately \$136.1 million at March 31, 2001, with individual property net book values ranging from \$2.3 million to \$30.4 million.

NOTE D - SEGMENT DISCLOSURE

The Company is engaged in two operating segments, the ownership and rental of retail shopping center properties and apartment properties. These reportable segments offer different products or services and are managed separately as each requires different operating strategies and management expertise. There are no intersegment sales or transfers.

6

The Company assesses and measures segment operating results based on a performance measure referred to as Net Operating Income and is based on the operating revenues and operating expenses directly associated with the operations of the real estate properties (excluding depreciation). Net Operating Income is not a measure of operating results or cash flows from operating activities as measured by GAAP, and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity.

The operating revenues, operating expenses, net operating income and real estate investments for each of the reportable segments are summarized below for the three-month periods ended March 31, 2001 and 2000.

	Quarter Ended March 31	
	2001	2000
Retail:		
Operating Revenue	\$ 7,277,000	\$ 7,029,000
Operating Expenses	(3,013,000)	(2,683,000)
Net Operating Income - Retail	\$ 4,264,000	\$ 4,346,000

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

Apartments:		
Operating Revenue	\$ 5,879,000	\$ 5,635,000
Operating Expenses	(2,665,000)	(2,655,000)
	-----	-----
Net Operating Income - Apartments	3,214,000	2,980,000
Net Operating Income - Total		
	\$ 7,478,000	\$ 7,326,000
Depreciation	(2,833,000)	(2,769,000)
	-----	-----
Income From Operations	4,645,000	4,557,000
Interest Expense	(3,982,000)	(3,931,000)
	-----	-----
Net Income	\$ 663,000	\$ 626,000
	=====	=====
Gross Real Estate Investments:		
Retail	\$213,821,000	\$207,182,000
Apartments	137,335,000	134,600,000
	-----	-----
	\$351,156,000	\$341,782,000
	=====	=====

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

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

For the three months ended March 31, 2001 net operating income totalled \$7.5 million, compared to \$7.3 million earned for the same period in 2000. Total operating revenues increased approximately 4% to \$13.2 million, compared to \$12.7 earned for the same period a year ago. Operating revenue for retail centers and apartments was \$7.3 million and \$5.9 million, respectively. The increase in operating revenue was due primarily to higher apartment occupancies, market sustained rents and new retail leases, in particular the leasing of a 44,300 s.f. Publix Supermarket at the Town and Country Power Shopping Center in Palatka, Florida, which opened for business in August, 2000. Increased first quarter revenues were partially offset by increased operating costs, in particular utilities, real estate taxes and property insurance costs. Operating expenses, net of depreciation, totalled \$5.7 million in 2001, compared to \$5.3 million in 2000.

7

LIQUIDITY AND CAPITAL RESOURCES

The primary source of working capital for the Company is net cash provided by operating activities, from which the Company funds normal operating requirements, debt service obligations, and distributions to shareholders. In addition, the Company maintains unsecured credit lines with commercial banks, which it utilizes to supplement cash provided by operating activities and to initially finance the cost of property development and redevelopment activities, portfolio acquisitions and other expenditures. At March 31, 2001, the Company had \$776,000 in cash and cash equivalents and \$55 million in committed bank lines of credit facilities, of which approximately \$18 million was available. Utilization of the bank lines is subject to certain restrictive covenants that impose maximum borrowing levels by the Company through the maintenance of certain prescribed financial ratios.

Net cash flows provided by operating activities increased \$852,000 in the first quarter of 2001 compared to the same period in 2000. The increase was

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

principally attributable to a reduction in contractor retainages paid in 2001 relating to development activities.

Net cash flows used in investing activities decreased approximately \$1.1 million in 2001 from 2000, primarily attributable to decreased development activities.

Net cash flows provided by financing activities decreased \$2.5 million in 2001 from 2000 due primarily to lower usage of bank lines, as a result of decreased development activities.

As of March 31, 2001, fourteen of the Company's properties, comprising approximately 49% of its gross investment in real estate, were subject to a total of \$112.6 million in mortgage obligations, all of which are long-term, non-recourse and bear fixed rates of interest for fixed terms. The remaining sixteen properties and vacant parcels of land in the portfolio are currently unencumbered by debt. The Company anticipates that its current cash balance, operating cash flows, and borrowing capacity (including borrowings under its lines of credit) will be adequate to fund the Company's future (i) operating and administrative expenses, (ii) debt service obligations, (iii) distributions to shareholders, (iv) development activities, (v) capital improvements on existing properties, and (vi) typical repair and maintenance expenses at its properties.

The Company's current dividend policy is to pay quarterly dividends to shareholders, based upon funds from operations, as well as other factors. As funds from operations excludes the deduction of certain non-cash charges, principally depreciation on real estate assets, quarterly dividends will typically be greater than net income and may include a tax-deferred return of capital component. The Board of Directors, on May 11, 2001, declared a cash dividend of \$0.23 per share for the period January 1, 2001 through March 31, 2001, payable on June 1, 2001 to shareholders of record as of May 25, 2001.

FUNDS FROM OPERATIONS

Real estate industry analysts and the Company utilize the concept of funds from operations as an important analytical measure of a Real Estate Investment Trust's financial performance. The Company considers funds from operations in evaluating its operating results and its dividend policy, as previously mentioned, is also based, in part, on the concept of funds from operations.

Funds from operations (FFO) is defined by the Company and the National Association of Real Estate Investment Trusts (NAREIT) as net income, excluding gains or losses from sales of property and those items defined as extraordinary under accounting principles generally accepted in the United States of America, plus depreciation on real estate assets and after adjustments for unconsolidated partnerships to reflect funds from operations on the same basis. Funds from operations do not represent cash flows from operations as defined by GAAP, nor is it indicative that cash flows are adequate to fund all cash needs, including distributions to shareholders. Funds from operations should not be considered as an alternative to net income as defined by GAAP or to cash flows as a measure of liquidity. A reconciliation of net income to basic funds from operations is presented below (in thousands):

8

	Quarter Ended March 31			
	2001		2000	
	(\$000)	Shares	(\$000)	Shares
NET INCOME	\$ 663	8,107	\$ 626	7,901

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

Additions:			
Depreciation	2,833		2,769
Partnership depreciation	9		9
Deductions:			
Minority depreciation	12		12
Amortization costs	157		143
	-----	-----	-----
FUNDS FROM OPERATIONS - BASIC	\$3,336	8,107	\$3,249
	=====	=====	=====
			7,901

EFFECTS OF INFLATION

Substantially all of the Company's retail leases contain provisions designed to provide the Company with a hedge against inflation. Most of the Company's retail leases contain provisions which enable the Company to receive percentage rentals based on tenant sales in excess of a stated breakpoint and/or provide for periodic increases in minimum rent during the lease term. The majority of the Company's retail leases are for terms of less than ten years, which allows the Company to adjust rentals to changing market conditions. In addition, most retail leases require tenants to pay a contribution towards property operating expenses, thereby reducing the Company's exposure to higher costs caused by inflation. The Company's apartment leases are written for short terms, generally six to twelve months, and are adjusted according to changing market conditions.

FUTURE RESULTS

This Form 10-Q and other documents prepared and statements made by the Company, may contain certain forward-looking statements that are subject to risk and uncertainty. Investors and potential investors in the Company's securities are cautioned that a number of factors could adversely affect the Company and cause actual results to differ materially from those in the forward-looking statements, including, but not limited to (a) the inability to lease current or future vacant space in the Company's properties; (b) decisions by tenants and anchor tenants who own their space to close stores at the Company's properties; (c) the inability of tenants to pay rent and other expenses; (d) tenant financial difficulties; (e) decreases in rental rates available from tenants; (f) increases in operating costs at the Company's properties; (g) lack of availability of financing for acquisition, development and rehabilitation of properties by the Company; (h) possible dispositions of mature properties since the Company is continuously engaged in the examination of its various lines of business; (i) increases in interest rates; (j) a general economic downturn resulting in lower retail sales and causing downward pressure on occupancies and rents at retail properties; as well as (k) the adverse tax consequences if the Company were to fail to qualify as a REIT in any taxable year.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We incorporate by reference the disclosure contained in Item 7a, Quantitative and Qualitative Disclosures About Market Risk, of the Company's Form 10-K, for the year ended December 31, 2000. There have been no material changes during the first three months of 2001.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no pending legal proceedings to which the Company is a party or to which any of its properties is subject, which in the opinion of management and its litigation counsel has resulted or will result in any

Edgar Filing: SIZELER PROPERTY INVESTORS INC - Form 10-Q

material adverse effect on the financial position of the Company.

9

ITEM 2. CHANGES IN SECURITIES.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

27. Financial Data Schedule.

(b) Reports on Form 8-K

None.

SIGNATURE

Pursuant to the requirements 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.

SIZELER PROPERTY INVESTORS, INC.

(Registrant)

By: /S/ ROBERT A. WHELAN

Robert A. Whelan
Chief Financial Officer

Date: May 11, 2001

10