TANGER FACTORY OUTLET CENTERS INC
Form 10-Q
November 07, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008
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 No. 1-11986

TANGER FACTORY OUTLET CENTERS, INC.
(Exact name of Registrant as specified in its Charter)

NORTH CAROLINA	56-1815473
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3200 Northline Avenue, Suite 360, Greensboro, North Carolina 27408
(Address of principal executive offices)
(Zip code)

(336) 292-3010
(Registrant's telephone number, including area code)

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 ý No ¨

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.

Large accelerated filer ý	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

31,664,401 shares of Common Stock,
$.01 par value, outstanding as of October 31, 2008

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TANGER FACTORY OUTLET CENTERS, INC.

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PART I. – FINANCIAL INFORMATION

Item 1 – Financial Statements

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS:		
Rental property		
Land	$ 135,688	$ 130,075
Buildings, improvements and fixtures	1,233,680	1,104,459
Construction in progress	16,377	52,603
	1,385,745	1,287,137
Accumulated depreciation	(345,577)	(312,638)
Rental property, net	1,040,168	974,499
Cash and cash equivalents	3,753	2,412
Investments in unconsolidated joint ventures	12,145	10,695
Deferred charges, net	39,854	44,804
Other assets	28,811	27,870
Total assets	$ 1,124,731	$ 1,060,280
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY		
Liabilities		
Debt		
Senior, unsecured notes (net of discount of $701 and $759, respectively)	$ 398,799	$ 498,741
Unsecured term loan	235,000	---
Mortgages payable (including a debt premium of $0 and $1,046, respectively)	---	173,724
Unsecured lines of credit	149,500	33,880
	783,299	706,345
Construction trade payables	22,840	23,813
Accounts payable and accrued expenses	46,573	47,185
Total liabilities	852,712	777,343
Commitments		
Minority interest in operating partnership	31,678	33,733
Shareholders' equity		
Preferred shares, 7.5% Class C, liquidation preference $25 per share, 8,000,000 shares authorized, 3,000,000 shares issued and outstanding at September 30, 2008 and December 31, 2007	75,000	75,000
Common shares, $.01 par value, 150,000,000 shares authorized, 31,664,401 and 31,329,241 shares issued		

and outstanding at September 30, 2008 and December 31, 2007, respectively	317	313
Paid in capital	357,698	351,817
Distributions in excess of net income	(192,601)	(171,625)
Accumulated other comprehensive loss	(73)	(6,301)
Total shareholders' equity	240,341	249,204
Total liabilities, minority interest and shareholders' equity	$ 1,124,731	$ 1,060,280

The accompanying notes are an integral part of these consolidated financial statements.

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues				
Base rentals	$ 40,519	$ 37,207	$116,374	$108,614
Percentage rentals	1,811	2,305	4,109	5,434
Expense reimbursements	18,277	16,719	51,447	47,496
Other income	2,166	2,155	5,124	5,243
Total revenues	62,773	58,386	177,054	166,787
Expenses				
Property operating	20,678	19,158	57,422	53,893
General and administrative	6,217	4,916	17,165	14,096
Depreciation and amortization	15,320	14,941	45,593	48,870
Total expenses	42,215	39,015	120,180	116,859
Operating income	20,558	19,371	56,874	49,928
Interest expense	9,147	10,087	28,191	30,215
Loss on settlement of US treasury rate locks	---	---	8,910	---
Income before equity in earnings of unconsolidated joint ventures, minority interest and discontinued operations	11,411	9,284	19,773	19,713
Equity in earnings of unconsolidated joint ventures	596	461	1,548	1,030
Minority interest in operating partnership	(1,729)	(1,370)	(2,794)	(2,716)
Income from continuing operations	10,278	8,375	18,527	18,027
Discontinued operations, net of minority interest	---	22	---	76
Net income	10,278	8,397	18,527	18,103
Preferred share dividends	(1,406)	(1,406)	(4,219)	(4,219)
Net income available to common shareholders	$ 8,872	$ 6,991	$ 14,308	$ 13,884
Basic earnings per common share				
Income from continuing operations	$ .29	$ .23	$ .46	$ .45
Net income	$ .29	$ .23	$ .46	$ .45
Diluted earnings per common share				
Income from continuing operations	$ .28	$ .22	$ .45	$ .44
Net income	$ .28	$ .22	$ .45	$ .44

Dividends paid per common share	$	.38	$	.36	$	1.12	$	1.06

The accompanying notes are an integral part of these consolidated financial statements.

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2008	2007
OPERATING ACTIVITIES		
Net income	$ 18,527	$ 18,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on settlement of US treasury rate locks	8,910	---
Depreciation and amortization (including discontinued operations)	45,620	49,015
Amortization of deferred financing costs	1,212	1,308
Equity in earnings of unconsolidated joint ventures	(1,548)	(1,030)
Operating partnership minority interest (including discontinued operations)	2,794	2,731
Compensation expense related to restricted shares and options granted	4,024	2,956
Amortization of debt premiums and discount, net	(1,194)	(1,927)
Distributions received from unconsolidated joint ventures	2,655	2,135
Net accretion of market rent rate adjustment	(228)	(877)
Straight-line base rent adjustment	(2,697)	(2,306)
Increase (decrease) due to changes in:		
Other assets	(265)	(3,850)
Accounts payable and accrued expenses	(5,741)	2,686
Net cash provided by operating activities	72,069	68,944
INVESTING ACTIVITIES		
Additions to rental property	(102,587)	(58,432)
Additions to investments in unconsolidated joint ventures	(1,577)	---
Return of equity from unconsolidated joint ventures	---	1,281
Additions to deferred lease costs	(3,295)	(2,254)
Net cash used in investing activities	(107,459)	(59,405)
FINANCING ACTIVITIES		
Cash dividends paid	(39,503)	(37,299)
Distributions to operating partnership minority interest	(6,791)	(6,432)
Proceeds from debt issuances	687,170	92,400
Repayments of debt	(609,228)	(71,912)
Proceeds from tax incremental financing	4,646	5,813
Additions to deferred financing costs	(2,151)	---
Proceeds from exercise of options	2,588	1,872
Net cash provided by (used in) financing activities	36,731	(15,558)
Net increase (decrease) in cash and cash equivalents	1,341	(6,019)
Cash and cash equivalents, beginning of period	2,412	8,453
Cash and cash equivalents, end of period	$ 3,753	$ 2,434

The accompanying notes are an integral part of these consolidated financial statements.

TANGER FACTORY OUTLET CENTERS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tanger Factory Outlet Centers, Inc. and subsidiaries is one of the largest owners and operators of factory outlet centers in the United States. We are a fully-integrated, self-administered and self-managed real estate investment trust, or REIT, that focuses exclusively on developing, acquiring, owning, operating and managing factory outlet shopping centers. As of September 30, 2008, we owned and operated 30 outlet centers with a total gross leasable area of approximately 8.8 million square feet. These factory outlet centers were 97% occupied. We also operated two outlet centers in which we owned a 50% interest with a gross leasable area of approximately 667,000 square feet.

Our factory outlet centers and other assets are held by, and all of our operations are conducted by, Tanger Properties Limited Partnership and subsidiaries. Accordingly, the descriptions of our business, employees and properties are also descriptions of the business, employees and properties of the Operating Partnership. Unless the context indicates otherwise, the term “Company” refers to Tanger Factory Outlet Centers, Inc. and subsidiaries and the term “Operating Partnership” refers to Tanger Properties Limited Partnership and subsidiaries. The terms “we”, “our” and “us” refer to the Company or the Company and the Operating Partnership together, as the text requires.

We own the majority of the units of partnership interest issued by the Operating Partnership through our two wholly-owned subsidiaries, the Tanger GP Trust and the Tanger LP Trust. The Tanger GP Trust controls the Operating Partnership as its sole general partner. The Tanger LP Trust holds a limited partnership interest. The Tanger family, through its ownership of the Tanger Family Limited Partnership, holds the remaining units as a limited partner. Stanley K. Tanger, our Chairman of the Board and Chief Executive Officer, is the sole general partner of Tanger Family Limited Partnership.

2. Basis of Presentation

Our unaudited consolidated financial statements have been prepared pursuant to accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements and notes thereto of our Annual Report on Form 10-K for the year ended December 31, 2007. The December 31, 2007 balance sheet data was derived from audited financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission’s ("SEC") rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

The accompanying unaudited consolidated financial statements include our accounts, our wholly-owned subsidiaries, as well as the Operating Partnership and its subsidiaries and reflect, in the opinion of management, all adjustments necessary for a fair statement of the interim consolidated financial statements. All such adjustments are of a normal and recurring nature. Intercompany balances and transactions have been eliminated in consolidation.

Investments in real estate joint ventures that represent non-controlling ownership interests are accounted for using the equity method of accounting. These investments are recorded initially at cost and subsequently adjusted for our equity in the venture's net income (loss) and cash contributions and distributions.

3. Development of Rental Properties

Washington, Pennsylvania

On August 29, 2008, we held the grand opening of our 371,000 square foot outlet center located south of Pittsburgh in Washington, Pennsylvania. Tenants include Nike, Gap, Old Navy, Banana Republic, Coach and others. The outlet center opened 86% leased.

Expansions at Existing Centers

During the second quarter of 2008, we completed a 62,000 square foot expansion at our center located in Barstow, California. As of September 30, 2008, the center contained a total of approximately 171,000 square feet, including the newly opened expansion space. The outlet center is 100% occupied.

Commitments to complete construction of the Washington, PA development, along with renovations at centers in Myrtle Beach Hwy 501, South Carolina; Lincoln City, Oregon; Park City, Utah and Foley, Alabama and other capital expenditure requirements amounted to approximately $11.4 million at September 30, 2008. Commitments for construction represent only those costs contractually required to be paid by us.

Interest costs capitalized during the three months ended September 30, 2008 and 2007 amounted to $515,000 and $484,000, respectively, and for the nine months ended September 30, 2008 and 2007 amounted to $1.6 million and $1.0 million, respectively.

4. Investments in Unconsolidated Real Estate Joint Ventures

Our investments in unconsolidated real estate joint ventures as of September 30, 2008 and December 31, 2007 aggregated $12.1 million and $10.7 million, respectively. We have evaluated the accounting treatment for each of the joint ventures under the guidance of FIN 46R, "Consolidation of Variable Interest Entities (Revised December 2003)", and have concluded based on the current facts and circumstances that the equity method of accounting should be used to account for the individual joint ventures. We are members of the following unconsolidated real estate joint ventures:

Joint Venture	Our Ownership %	Carrying Value as of September 30, 2008 (in millions)	Carrying Value as of December 31, 2007 (in millions)	Project Location
Myrtle Beach Hwy 17	50%	$0.3	$0.9	Myrtle Beach, South Carolina
Wisconsin Dells	50%	$5.4	$6.0	Wisconsin Dells, Wisconsin
Deer Park	33%	$6.4	$3.8	Deer Park, New York

Our Myrtle Beach Hwy 17 and Wisconsin Dells joint ventures are not considered variable interest entities. Our Deer Park joint venture is considered a variable interest entity but we are not considered the primary beneficiary. These investments are recorded initially at cost and subsequently adjusted for our equity in the venture's net income (loss) and cash contributions and distributions. Our investments in real estate joint ventures are reduced by 50% of the profits earned for leasing and development services we provided to the Myrtle Beach Hwy 17 and Wisconsin Dells joint ventures. The following management, leasing and marketing fees were recognized from services provided to Myrtle Beach Hwy 17, Wisconsin Dells and Deer Park (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Fee:				
Management and leasing	$ 405	$ 137	$ 898	$ 416
Marketing	28	25	93	82
Total Fees	$ 433	$ 162	$ 991	$ 498

Our carrying value of investments in unconsolidated joint ventures differs from our share of the assets reported in the "Summary Balance Sheets – Unconsolidated Joint Ventures" shown below due to adjustments to the book basis, including intercompany profits on sales of services that are capitalized by the unconsolidated joint ventures. The differences in basis are amortized over the various useful lives of the related assets.

Deer Park

In October 2003, we established the Deer Park joint venture to develop and own a center in Deer Park, New York. On October 23, 2008, we held the grand opening of the initial phase that contains approximately 682,000 square feet including a 32,000 square foot Neiman Marcus Last Call store, which will be the first and only one on Long Island. Other tenants include Anne Klein, Banana Republic, BCBG, Christmas Tree Shops, Eddie Bauer, Reebok, New York Sports Club and others. Regal Cinemas has also leased 67,000 square feet for a 16-screen Cineplex, one of the few state of the art cineplexes on Long Island. The retail space at the center opened 77% leased. Upon completion of the project, the entire shopping center will contain over 800,000 square feet.

During 2008, we made additional capital contributions of $1.6 million to Deer Park. Both of the other venture partners made equity contributions equal to ours. After making the above contribution, the total amount of equity contributed by each venture partner to the project was approximately $4.8 million.

In May 2007, the joint venture closed on a $284.0 million construction loan for the project with a weighted average interest rate of one month LIBOR plus 1.49%. Over the life of the loan, if certain criteria are met, the weighted average interest rate can decrease to one month LIBOR plus 1.23%. The construction loan, which had a balance as of September 30, 2008 of $196.4 million, is scheduled to mature in May 2010 with a one year extension option at that date. The loan is collateralized by the property as well as limited joint and several guarantees by all three venture partners. The joint venture entered into two interest rate swap agreements during June 2007. The first swap is for a notional amount of $49.0 million and the second is a forward starting interest rate swap agreement with escalating notional amounts that totaled $82.4 million as of September 30, 2008. The notional amount of the forward starting interest rate swap agreement will total $121.0 million as of November 1, 2008. The agreements expire on June 1, 2009. These swaps will effectively change the rate of interest on up to $170.0 million of variable rate construction debt to a fixed rate of 6.75%.

Condensed combined summary financial information of joint ventures accounted for using the equity method is as follows (in thousands):

Summary Balance Sheets – Unconsolidated Joint Ventures	As of September 30, 2008	As of December 31, 2007
Assets		
Investment properties at cost, net	$ 72,118	$ 71,022
Construction in progress	226,031	103,568
Cash and cash equivalents	4,104	2,282
Deferred charges, net	6,041	2,092
Other assets	7,853	8,425
Total assets	$316,147	$ 187,389
Liabilities and Owners' Equity		
Mortgages payable	$ 259,789	$ 148,321
Construction trade payables	26,750	13,052
Accounts payable and other liabilities (1)	6,845	6,377
Total liabilities	293,384	167,750
Owners' equity (1)	22,763	19,639
Total liabilities and owners' equity	$316,147	$ 187,389

(1) Includes the fair value of interest rate swap agreements at Deer Park and Myrtle Beach Hwy 17 totaling $3.3 million and $4.0 million as of September 30, 2008 and December 31, 2007, respectively, recorded as an increase in accounts payable and other liabilities and a reduction of owners' equity.

Summary Statements of Operations - Unconsolidated Joint Ventures	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Revenues	$ 5,582	$ 4,949	$ 15,370	$ 14,365
Expenses				
Property operating	2,128	1,643	5,650	5,003
General and administrative	90	60	188	219
Depreciation and amortization	1,302	1,353	3,991	4,119
Total expenses	3,520	3,056	9,829	9,341
Operating income	2,062	1,893	5,541	5,024
Interest expense	932	1,025	2,592	3,142
Net income	$ 1,130	$ 868	$ 2,949	$ 1,882
Tanger's share of:				
Net income	$ 596	$ 461	$ 1,548	$ 1,030
Depreciation (real estate related)	635	651	1,938	1,985

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5. Disposition of Property

During the 2008 period, we did not have any property dispositions. In October 2007, we completed the sale of our property in Boaz, Alabama. Net proceeds received from the sale of the property were approximately $2.0 million. Below is a summary of the results of operations for the Boaz, Alabama property sold during the third quarter of 2007 (in thousands):

Summary Statements of Operations - Disposed Properties Included in Discontinued Operations	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues:				
Base rentals	$ ---	$ 141	$ ---	$ 417
Percentage rentals	---	---	---	1
Expense reimbursements	---	37	---	103
Other income	---	6	---	15
Total revenues	---	184	---	536
Expenses:				
Property operating	---	105	---	291
General and administrative	---	5	---	9
Depreciation and amortization	---	48	---	145
Total expenses	---	158	---	445
Discontinued operations before minority interest	---	26	---	91
Minority interest	---	(4)	---	(15)
Discontinued operations	$ ---	$ 22	$ ---	$ 76

6. Debt

During the second quarter of 2008, we closed on a $235.0 million unsecured three year term loan facility. The syndicated facility was jointly arranged by Banc of America Securities LLC and Wells Fargo Bank, N.A., with Bank of America, N.A. serving as Administrative Agent and Wells Fargo Bank, N.A. serving as Syndication Agent. The facility bears interest at a spread over LIBOR of 160 basis points, with the spread adjusting over time, based upon our debt ratings. We currently maintain investment grade ratings with Moody's Investors Service (Baa3 stable) and Standard and Poor's Ratings Services (BBB).

Proceeds from the term loan were used to repay our only remaining mortgage loan with a principal balance of approximately $170.7 million in June 2008. A prepayment premium, representing interest through the July payment date, of approximately $406,000 was paid at closing. Upon the repayment of this mortgage, our entire portfolio of wholly-owned properties became unencumbered. The remaining proceeds of approximately $62.8 million, net of closing costs, were applied against amounts outstanding on our unsecured lines of credit and to settle the interest rate lock protection agreements discussed in Note 7, Derivatives.

During the first quarter of 2008, we increased the maximum availability under our existing unsecured lines of credit by $125.0 million, bringing our total availability to $325.0 million. The terms of the increases are identical to those included within the existing unsecured lines of credit with the current borrowing rate ranging from LIBOR plus 75 basis points to LIBOR plus 85 basis points.

On February 15, 2008, our $100.0 million, 9.125% unsecured senior notes matured. We repaid these notes with amounts available under our unsecured lines of credit.

7. Derivatives

In July 2008 and September 2008, we entered into LIBOR based interest rate swap agreements with Wells Fargo Bank, N.A. and Branch Banking and Trust Company for notional amounts of $118.0 million and $117.0 million respectively. The purpose of these swaps was to fix the interest rate on the $235.0 million outstanding under the term loan facility completed in June 2008. The swaps fixed the one month LIBOR rate at 3.605% and 3.70%, respectively. These swap agreements, when combined with the current spread of 160 basis points on the term loan facility, result in a blended interest rate on the $235.0 million of variable rate debt of 5.25% until April 1, 2011.

In accordance with our derivatives policy, the swaps were assessed for effectiveness at the time of the transaction and it was determined that there was no ineffectiveness. The derivatives have been designated as cash flow hedges and will be assessed for effectiveness on an on-going basis at the end of each quarter. Unrealized gains and losses related to the effective portion of our derivatives are recognized in other comprehensive income and gains or losses related to ineffective portions are recognized in the income statement.

In conjunction with the closing of the unsecured term loan facility discussed above, we settled two interest rate lock protection agreements which were intended to fix the US Treasury index at an average rate of 4.62% for an aggregate amount of $200.0 million of new debt for 10 years from July 2008. We originally entered into these agreements in 2005 in anticipation of a public debt offering during 2008, based on the 10 year US Treasury rate. Upon the closing of the LIBOR based unsecured term loan facility, we determined that we were unlikely to execute a US Treasury based debt offering. The settlement of the interest rate lock protection agreements, at a total cost of $8.9 million, was reflected as a loss on settlement of US treasury rate locks in our consolidated statements of operations.

In our March 31, 2008 assessment of the two US treasury rate lock derivatives, we concluded that as of March 31, 2008, the occurrence of the forecasted transactions were considered “reasonably possible” instead of “probable”. The accounting ramifications of that conclusion were that amounts previously deferred in other comprehensive income remain frozen until the forecasted transaction either affected earnings or subsequently became not probable of occurring. The value of the derivatives as of March 31, 2008 included in other comprehensive income and liabilities was $17.8 million. Also, hedge accounting was discontinued on a go forward basis and changes in fair value related to theses two derivatives after April 1, 2008 were recognized in the statement of operations immediately.

The remaining net benefit from a derivative settled during 2005 in accumulated other comprehensive income was an unamortized balance as of September 30, 2008 of $2.1 million, net of minority interest of $404,000. This balance will amortize into the statement of operations through October 2015.

The following table summarizes the notional amounts and fair values of our derivative financial instruments as of September 30, 2008 (in thousands).

Financial Instrument Type	Notional Amount	Average Rate	Maturity	Fair Value
LIBOR based interest rate swaps	$235,000	3.65%	April 2011	$(1,327)

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8. Other Comprehensive Income

Total comprehensive income for the three and nine months ended September 30, 2008 and 2007 is as follows (in thousands):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net income	$ 10,278	$ 8,397	$ 18,527	$ 18,103
Other comprehensive income:				
Reclassification adjustment for amortization of gain on 2005 settlement of US treasury rate lock included in net income, net of minority interest of $(11), $(11), $(34) and $(32)	(58)	(55)	(172)	(162)
Reclassification adjustment for termination of US treasury rate locks, net of minority interest of $0, $0, $2,865 and $0	---	---	14,895	