CHELSEA PROPERTY GROUP INC
Form 10-Q
May 08, 2002

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 March 31, 2002

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. 1-12328

CHELSEA PROPERTY GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	**22-3251332**
State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

103 Eisenhower Parkway, Roseland, New Jersey 07068
(Address of principal executive offices - zip code)

(973) 228-6111
(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 X No .

The number of shares outstanding of the registrant's common stock, $0.01 par value was 18,929,608 at April 25, 2002.

Chelsea Property Group, Inc.

Index

Part I. Financial Information

Item 1. Financial Statements

Chelsea Property Group, Inc.
Condensed Consolidated Balance Sheets
(In thousands except per share data)

	March 31, 2002	December 31, 2001
	(Unaudited)	
Assets:		
Rental properties:		
Land	$160,698	$160,458
Depreciable property	970,971	967,448
Total rental property	1,131,669	1,127,906
Accumulated depreciation	(228,983)	(217,462)
Rental properties, net	902,686	910,444
Cash and cash equivalents	19,566	24,604
Restricted cash-escrows	3,274	3,347
Investments in unconsolidated affiliates	94,199	93,689
Notes receivable-related parties	2,656	3,281
Deferred costs, net	23,698	22,534
Other assets	34,994	41,409
Total assets	$1,081,073	$1,099,308
Liabilities and stockholders' equity:		
Liabilities:		
Unsecured bank debt	$5,035	$5,035

Unsecured notes	373,349	373,294
Mortgage debt	169,870	170,209
Construction payables	8,020	8,001
Accounts payable and accrued expenses	21,250	47,039
Accrued dividend and distribution payable	19,084	3,851
Other liabilities	16,259	16,817
Total liabilities	612,867	624,246
Commitments and contingencies		
Minority interest	115,181	115,639
Stockholders' equity:		
8.375% series A cumulative redeemable preferred stock, $0.01 par value, authorized 5,000 shares, issued and outstanding 864 in 2002 and 1,000 in 2001 (aggregate liquidation preference $43,175 in 2002 and $50,000 in 2001)	9	10
Common stock, $0.01 par value, authorized 50,000 shares, issued and outstanding 18,874 in 2002 and 18,770 in 2001	190	190
Paid-in-capital	440,749	444,344
Distributions in excess of net income	(85,543)	(82,142)
Accumulated other comprehensive loss	(2,380)	(2,979)
Total stockholders' equity	353,025	359,423
Total liabilities and stockholders' equity	$1,081,073	$1,099,308

The accompanying notes are an integral part of the financial statements.

Chelsea Property Group, Inc.
Condensed Consolidated Statements of Income
for the Three Months Ended March 31, 2002 and 2001
(Unaudited)
(In thousands, except per share data)

	2002	2001
Revenues:		
Base rent	$38,509	$28,751
Percentage rent	3,073	2,771
Expense reimbursements	12,595	10,624
Other income	2,504	2,678
Total revenues	56,681	44,824
Expenses:		
Operating and maintenance	16,204	12,118
Depreciation and amortization	12,941	11,559
General and administrative	1,517	1,074
Other	1,093	790
Total expenses	31,755	25,541
Income before unconsolidated investments, interest expense and minority interest	24,926	19,283
Income from unconsolidated investments	3,770	3,270
Loss from Chelsea Interactive	(2,700)	(1,198)

Interest expense	(9,750)	(8,615)
Income before minority interest	16,246	12,740
Minority interest	(3,455)	(3,187)
Net income	12,791	9,553
Preferred dividend requirement	(904)	(1,047)
Net income available to common shareholders	$11,887	$8,506
Earnings per share		
Basic:		
Net income per common share	$0.63	$0.53
Weighted average common shares outstanding	18,786	16,057
Diluted:		
Net income per common share	$0.61	$0.52
Weighted average common shares outstanding	19,388	16,453

The accompanying notes are an integral part of the financial statements.

Chelsea Property Group, Inc.
Condensed Consolidated Statements of Cash Flows
for the Three Months Ended March 31, 2002 and 2001
(Unaudited)
(In thousands)

	2002	2001
Cash flows from operating activities		
Net income	$12,791	$9,553
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,941	11,559
Equity-in-earnings of unconsolidated investments in excess of distributions received	(348)	(1,186)
Loss from Chelsea Interactive	2,700	1,198
Minority interest in net income	3,455	3,187
Proceeds from non-compete receivable	4,300	4,600
Amortization of non-compete revenue	(1,284)	(1,284)
Additions to deferred lease costs	-	(463)
Other operating activities	(222)	(115)
Changes in assets and liabilities:		
Straight-line rent receivable	(522)	(380)
Due from affiliates	(1,092)	(4,330)
Other assets	4,541	5,884
Deferred incentive compensation	(14,401)	-
Accounts payable and accrued expenses	(10,965)	(9,769)
Net cash provided by operating activities	11,894	18,454

Cash flows from investing activities		
Additions to rental properties	(3,927)	(7,886)
Additions to investments in unconsolidated affiliates	(3,287)	(3,172)
Distributions from investments in unconsolidated affiliates in excess of earnings	805	3,893
Additions to deferred development costs	(2,276)	(250)
Payments from related parties	1,113	1,426
Loans to related parties	(488)	-
Net cash used in investing activities	(8,060)	(5,989)
Cash flows from financing activities		
Debt proceeds	159	157,313
Repayment of debt	(392)	(134,250)
Net proceeds from sale of common stock	2,835	813
Distributions	(4,973)	(5,025)
Redemption of preferred stock	(6,431)	-
Additions to deferred financing costs	(70)	(1,536)
Net cash (used in) provided by financing activities	(8,872)	17,315
Net (decrease) increase in cash and cash equivalents	(5,038)	29,780
Cash and cash equivalents, beginning of period	24,604	18,036
Cash and cash equivalents, end of period	$19,566	$47,816

The accompanying notes are an integral part of the financial statements.

Chelsea Property Group, Inc.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Basis of Presentation

Organization

Chelsea Property Group, Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT"). The Company is the managing general partner of CPG Partners, L.P., (the "Operating Partnership" or "OP"), an operating partnership that specializes in owning, developing, leasing, marketing and managing upscale and fashion-oriented manufacturers' outlet centers (the "Premium Portfolio") and 30 centers acquired on September 25, 2001, containing approximately 4.3 million square feet of gross leasable area ("Other Retail Centers"), (collectively the "Properties"). As of March 31, 2002, the Company wholly or partially owned 57 centers in 28 states and Japan containing approximately 12.6 million square feet of gross leasable area ("GLA"). The Company's Premium Portfolio included 27 properties containing 8.3 million square feet of GLA. These properties generally are located near metropolitan areas including New York City, Los Angeles, Boston, Washington, D.C., San Francisco, Sacramento, Cleveland, Atlanta, Dallas, Portland (Oregon), Tokyo and Osaka, Japan. Some Premium properties are also located within 20 miles of major tourist destinations including Palm Springs, the Napa Valley, Orlando, and Honolulu.

During 2000 the Company developed a technology-based e-commerce platform through an unconsolidated affiliate, Chelsea Interactive, Inc. ("Chelsea Interactive"). This platform provides fashion and other retail brands with their own customized direct-to-the-consumer Internet online stores, incorporating e-commerce design, development, fulfillment and customer services.

Virtually, all of the Company's assets are held by, and all of its operations conducted through, the Operating Partnership. Due to the Company's ability, as the sole general partner, to exercise financial and operational control over the Operating Partnership, the Operating Partnership is consolidated in the accompanying financial statements. All significant intercompany transactions and accounts have been eliminated in consolidation.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of March 31, 2002, using available market information and appropriate valuation methodologies. Although management is not aware of any factors that would significantly affect the reasonable fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since such date and current estimates of fair value may differ significantly from the amounts presented herein.

Common ownership of the OP as of March 31, 2002 was approximately as follows:

Company	85.7%	18,874,000	units
Unitholders	14.3%	3,150,000	units
Total	100.0%	22,024,000	

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

In October 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This standard harmonizes the accounting for impaired assets and resolves some of the implementation issues as originally described in SFAS 121. The new standard became effective and was adopted by the Company on January 1, 2002. The adoption of this pronouncement did not have a material impact on the Company's results of operations or financial position.

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation.

2. Investments in Affiliates

The OP holds interests in domestic and international joint ventures. Non-controlling investments are accounted for under the equity method. Income from unconsolidated investments and loss from Chelsea Interactive includes equity-in-earnings, management, advisory, license, leasing and guarantee fees earned from these affiliates.

As of March 31, 2002, the OP's interests included a 49% interest in F/C Acquisition Holdings, LLC ("F/C"), a 40% interest in Chelsea Japan Co., Ltd. ("Chelsea Japan"), a 50% interest in Orlando Premium Outlets with Simon Property Group, Inc. ("Simon") and minority interests in outlet centers and development projects in Europe operated by Value Retail PLC ("Value Retail"). The Company owns 100% of the non-voting preferred stock of Chelsea Interactive and 50% of the non-voting common stock representing 40% of the total common stock.

The following is a summary of investments in and amounts due from affiliates during the three months ended March 31, 2002 (in thousands):

	F/C	Chelsea Japan	Simon	Chelsea Interactive	Other	Total
Balance 12/31/01.....	$36,118	$9,296	$9,723	$34,856	$3,696	$93,689
Additional Investment...........	-	107	-	3,005	-	3,112
Income (loss) from unconsolidated investments...	1,543	892	1,310	(2,700)	25	1,070
Distribution and fees.........	(1,670)	(569)	(250)	-	(50)	(2,539)
Advances (net)	(489)	626	(1,492)	222	-	(1,133)
Balance 3/31/02	$35,502	$10,352	$9,291	$35,383	$3,671	$94,199

The Company's share of income (loss) before depreciation, depreciation expense and income (loss) from unconsolidated investments for the three months ended March 31, 2002 and 2001 are as follows (in thousands):

	2002			2001		
	Income (loss) before Depreciation	Depr.	Income (loss) from Unconsol. Investments	Income (loss) before Depreciation	Depr.	Income (loss) f Unconsol Investme
F/C................	$2,264	$721	$1,543	$2,141	$657	$1,48
Chelsea Japan......	1,291	399	892	871	253	61
Simon..............	1,833	523	1,310	1,683	570	1,11
Other..............	25	-	25	55	-	5
Total...........	$5,413	$1,643	$3,770	$4,750	$1,480	$3,27
Chelsea Interactive........	($1,192)	$1,508	($2,700)	($618)	$580	($1,19

Condensed financial information as of March 31, 2002 and December 31, 2001 and for the three month periods ended March 31, 2002 and 2001 for F/C, Chelsea Japan and Simon (which are included in "Retail") and Chelsea Interactive is as follows (in thousands):

	Retail	Chelsea Interactive
Property, plant and equipment (net)		
March 31, 2002...	$358,045	$29,574
December 31, 2001..	355,427	29,923
Total assets		
March 31, 2002...	428,366	34,451
December 31, 2001..	409,944	34,963
Long term debt (1)		
March 31, 2002...	285,826	-

December 31, 2001	282,057	-
Total liabilities		
March 31, 2002	337,934	2,135
December 31, 2001	321,854	2,665
Net income (loss)		
March 31, 2002	4,992	(3,561)
March 31, 2001	4,095	(2,695)
Company's share of net income (loss)		
March 31, 2002	2,395	(2,700)
March 31, 2001	1,970	(1,198)
Fee income		
March 31, 2002	1,350	-
March 31, 2001	1,245	-

(1) Long-term debt includes $169.7 million in F/C, $59.4 million in Simon and $56.7 million in Chelsea Japan as of March 31, 2002 and $170.5 million in F/C, $58.5 million in Simon and $53.1 million in Chelsea Japan as of December 31, 2001.

3. Non-Compete Agreement

The Company recognized income from its non-compete agreement with The Mills Corporation of $1.3 million during the three months ended March 31, 2002 and 2001. Such amounts are included in other income in the accompanying financial statements.

4. Debt

Unsecured Bank Debt

The Company has a $160.0 million senior unsecured bank line of credit (the "Senior Credit Facility"). The Senior Credit Facility's expiration date has been extended through March 2004. The Company has an annual right to request a one-year extension of the Senior Credit Facility that may be granted at the option of the lenders. The Company has requested and the lenders are expected to extend the Senior Credit Facility until March 30, 2005. The Senior Credit Facility bears interest on the outstanding balance, payable monthly, at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 1.05% (3.05% at March 31, 2002) or the prime rate, at the Company's option. The LIBOR rate spread ranges from 0.85% to 1.25% depending on the Company's Senior Debt rating. A fee on the unused portion of the Senior Credit Facility is payable quarterly at rates ranging from 0.15% to 0.25% depending on the balance outstanding. At March 31, 2002 the entire $160.0 million was available under the Senior Credit Facility.

The Company also has a $5.0 million term loan (the "Term Loan") that carries the same interest rate and maturity as the Senior Credit Facility.

Unsecured Notes

A summary of the terms of the unsecured notes outstanding as of March 31, 2002 and December 31, 2001, is as follows (in thousands):

	March 31, 2002	December 31, 2001	Effective Yield (1)
8.375% Unsecured Notes due August 2005	$49,900	$49,892	8.44%

7.25% Unsecured Notes due October 2007............	124,817	124,809	7.29%
8.625% Unsecured Notes due August 2009............	49,925	49,923	8.66%
8.25% Unsecured Notes due February 2011...........	148,707	148,670	8.40%
Total	$373,349	$373,294	

(1) Including discount on the notes

Mortgage Debt

A summary of the terms of the mortgage debt outstanding as of March 31, 2002 and December 31, 2001 and the related interest rate and Net Book Value ("NBV") of the associated collateral as of March 31, 2002 are as follows (in thousands):

Notes to Condensed Consolidated Financial Statements
(Unaudited)

	March 31, 2002	December 31, 2001	Due Date	Interest Rate	NBV
Construction Loan (1)	$29,691	$29,531	February 2003	3.29%	$46,21
Bank Mortgage Loan (2)	68,000	68,250	April 2010	7.26%	74,05
Mortgage Loan (3)	72,179	72,428	December 2012	7.67%	75,17
	$169,870	$170,209			$195,4

(1) In February 2000 Chelsea Allen entered into a $40.0 million Construction Loan used to fund the Allen Premium Outlets project. The Construction Loan bears interest equal to LIBOR plus 1.375% (3.29% at March 31, 2002) and is guaranteed by the Company and the OP.

(2) In April 2000 Chelsea Financing entered into a $70.0 million Bank Mortgage Loan secured by its four properties. The Bank Mortgage Loan bears interest equal to LIBOR plus 1.50% (3.37% at March 31, 2002) or prime rate plus 1.0% and calls for quarterly principal amortization of $ 0.3 million through April 2005 and thereafter $0.5 million per quarter until maturity. In December 2000, the Company entered into an interest rate swap agreement effective January 2, 2001 to hedge against unfavorable fluctuations in LIBOR rates by fixing the interest rate at 7.26% until January 2006. As of March 31, 2002, the Company recognized interest expense of $0.7 million on the hedge that is included in interest expense in the accompanying financial statements.

(3) The Mortgage Loan was assumed as part of a September 2001 acquisition. The stated interest rate of 9.1% was greater than that available to the Company in the public debt markets. Accordingly the Company recorded a $6.9 million debt premium that will be amortized over the period of the loan and which reduces the effective interest rate to 7.67%. The loan calls for fixed monthly debt service payments of $0.5 million for interest plus principal based on a 26-year amortization schedule. The Mortgage Loan matures in March 2028 but can be prepaid beginning December 2012. As of March 31 2002, the Company recognized $0.1 million in debt premium amortization that is included in interest expense in the accompanying financial statements.

Interest and loan costs of approximately $0.7 million and $0.6 million were capitalized as development costs during the three months ended March 31, 2002 and 2001 respectively.

5. Financial Instruments: Derivatives and Hedging

The Company employs interest rate and foreign currency forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the underlying hedged transaction affects net income, expires or is otherwise terminated or assigned.

At March 31, 2002 the Company's interest rate swap was reported at its fair value and classified as an other liability of $2.3 million. As of March 31, 2002, there were $2.3 million in deferred losses, and represented in accumulated other comprehensive loss, a shareholder's equity account, and minority interest. Within the next twelve months, the Company expects to reclassify to earnings approximately $0.6 million of the current balance held in accumulated other comprehensive loss and minority interest related to the interest rate swap.

At March 31, 2002 the Company's forward rate contracts were reportable at the market value as other assets of $0.01 million.

Hedge Type	Notional Value	Rate	Maturity	Fair Value
Swap, Cash Flow	$68.0 million	5.7625%	1/1/06	($2.3 million)
Forward, Cash Flow	Yen 255 million	132 Yen/$	2002 (1)	$0.01 million

(1) Contract for 45 million Yen maturing April 2002 and contract for 210 million Yen maturing June 2002.

The notional value and fair value of the above hedges provide an indication of the extent of the Company's involvement in financial derivative instruments of March 31, 2002 but do not represent exposure to credit, interest rate, foreign exchange or market risk.

6. Stockholders' Equity

Following is a statement of stockholders' equity for the three months ended March 31, 2002 (in thousands):

	Preferred Stock At Par Value	Common Stock At Par Value	Paid-in-Capital	Distrib. in Excess of Net	Accum. Other Comp. (Loss) Income	Tot Stockho Equ
Balance December 31, 2001......	$10	$190	$444,344	($82,142)	($2,979)	$359
Net income.....................	-	-	-	12,791	-	12
Other comprehensive loss						
Foreign currency translation..............	-	-	-	-	(51)	
Interest rate swap........	-	-	-	-	650	
Total comprehensive income.....						13
Preferred dividend............	-	-	-	(904)		
Redemption of preferred stock (net of costs)......	(1)	-	(6,430)	-	-	(6
Cash distributions declared ($0.81 per common share)..	-	-	-	(15,288)		(15
Exercise of stock options......	-	-	2,804	-		2
Shares issued through Employee Stock Purchase Plan (net of costs)...........	-	-	31	-	-	

Balance March 31, 2002	$9	$190	$440,749	($85,543)	($2,380)	$35

On May 1, 2002, the Company declared a 2-for-1 stock split of the Company's common shares. The stock dividend is payable May 28, 2002 to shareholders of record on May 14, 2002.

The following condensed pro forma information assumes the stock split had occurred on January 1, 2001:

(In thousands, except per share amounts)	2002		2001	
Numerator				
Numerator for basic and diluted earnings per share - net income available to common shareholders		$11,887		$8,50
Denominator				
Denominator for basic earnings per share-				
Weighted average shares	18,786		16,057	
Increase in shares due to effect of 2-for-1 stock split	18,786		16,057	
Pro forma denominator for basic earnings per share		37,572		32,11
Effect of diluted securities:				
Stock options	602		396	
Increase in shares due to effect of 2-for-1 stock split	602		396	
Pro forma effect of dilutive securities		1,024		79
Denominator for diluted earnings per share-				
Adjusted weighted average shares assumed conversions	19,388		16,453	
Increase in shares due to effect of 2-for-1 stock split	19,388		16,453	
Pro forma denominator for diluted earnings per share		38,778		32,90
Proforma per share amounts:				
Net income - basic		$0.32		$0.2
Net income - diluted		$0.31		$0.2
Distributions declared		$0.405		$0.3

On February 15, 2002, the Company redeemed and retired 136,500 shares of Preferred Stock at a net price of $47 per share.

7. Dividends

On March 14, 2002, the Board of Directors of the Company declared a $0.81 per share dividend to shareholders of record on March 28, 2002. The dividend, totaling $15.3 million, was paid on April 15, 2002. The OP simultaneously paid a $0.81 per unit cash distribution, totaling $2.5 million, to its minority unitholders.

8. Income Taxes

At March 31, 2002, the Company was in compliance with all REIT requirements under Section 856(c) of the Internal Revenue code of 1986, as amended, and as such, was not subject to federal income taxes.

9. Net Income Per Common Share

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock of 0.6 million in 2002 and 0.4 million in 2001.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

(In thousands, except per share amounts)	Three months ended March 31, 2002	2001
Numerator		
Numerator for basic and diluted earnings per share - net income available to common shareholders............	$11,887	$8,506
Denominator		
Denominator for basic earnings per share - weighted average shares..	18,786	16,057
Effect of diluted securities:		
Stock options......................................	602	396
Denominator for diluted earnings per share - adjusted weighted average share and assumed conversions...	19,388	16,453
Per share amounts:		
Net income - basic..................................	$0.63	$0.53
Net income - diluted................................	$0.61	$0.52

10. Commitments and Contingencies

Orlando Premium Outlets has a $59.4 million construction facility (maximum commitment $62.0 million) that was to mature in February 2002 and which was extended to August 2002. The loan has three additional six-month extension options. The loan bears interest at LIBOR plus 1.30% (3.24% at March 31, 2002) and as of March 31, 2002 was 10% guaranteed by each of the Company and Simon. Changes in debt service coverage ratio provide for a guarantee ranging from 10% to 25% per guarantor and a LIBOR interest rate spread ranging from 130 to 150 basis points.

In October 1999, an equity investee of the Company entered into a 4 billion yen (approximately US $30.1 million) line of credit guaranteed by the Company and OP to fund its share of Chelsea Japan's construction costs. The line of credit bears interest at yen LIBOR plus 1.35% (1.475% at March 31, 2002) was originally due April 2002 and had two one-year extensions. The line has been extended through April 2003. At March 31, 2002, 1.08 billion yen (approximately US $8.1 million) was outstanding under the loan. In March 2000, Chelsea Japan entered into a 3.8 billion yen (approximately US $28.6 million) loan with a Japanese bank to fund construction costs. The loan matures in 2015 and as of March 31, 2002 the entire facility was outstanding and bears interest at 2.20%. On March 29, 2002, Chelsea Japan entered into a 600 million yen (approximately US $4.5 million) loan with a Japanese bank to fund the construction of the second phase of Rinku. The loan matures in 2015 and as of March 31, 2002 the entire facility was outstanding and bears interest at 1.5%. Both loans are secured by the two operating properties and are 40% guaranteed by the Company.

The Company has agreed under a standby facility to provide up to $22.0 million in limited debt service guarantees for loans provided to Value Retail PLC and affiliates, to construct outlet centers in Europe. The term of the standby facility expired in November 2001 and guarantees shall not be outstanding for longer than five years after project completion. As of March 31, 2002, the Company had provided limited debt service guarantees of approximately $16.7 million to Value Retail PLC. In October 2001, the guarantee limit was increased to $24.1 million until April 2002 at which time it will revert to $22.0 million. The Company received $2.1 million collateral for this short-term increase that will revert back to Value Retail in May 2002. Such escrow is included in restricted cash-escrows and other liabilities in the accompanying financial statements.

The Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company or its properties, other than routine litigation arising in the ordinary course of business. Management believes the cost incurred by the Company related to any of its litigation will not be material and have been adequately provided for in the consolidated financial statements.

11. Related Party Information

In 1999, the OP established a $6.0 million secured loan facility that will expire on June 2004 for the benefit of certain unitholders. Each unit holder borrower will issue a note that is secured by OP units, bears interest at a rate of LIBOR plus 200 basis points per annum, payable quarterly and is due by the facility expiration date. At December 31, 2001, loans made to two unitholders, who are also affiliates of management of the Company, totaled $3.2 million. During the three months ended March 31, 2002, the Company received a $0.5 million pay off of one loan and a $0.6 million pay down on the other loan outstanding. On March 25, 2002, the Company advanced $0.5 million to another unitholder. The carrying value of such loans approximated fair value at March 31, 2002.

12. Segment Information

The Company is principally engaged in the development, ownership, acquisition and operation of manufacturers' outlet centers and has determined that under SFAS No.131 "Disclosures About Segments of an Enterprise and Related Information" it has three reportable retail real estate segments: premium domestic, other domestic and international. The Company evaluates real estate performance and allocates resources based on Net Operating Income ("NOI") defined as total revenue less operating and maintenance expense. The primary sources of revenue are generated from tenant base rents, percentage rents and reimbursement revenue. Operating expenses primarily consist of common area maintenance, real estate taxes and promotional expenses. The retail real estate business segments meet the quantitative threshold for determining reportable segments.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Unaudited (in thousands)	Premium Domestic	Other Domestic	International	Other	T
		(1)	(2)	(3)	
Total revenues					
Three months ended:					
March 31, 2002.............	$44,075	$11,229	$ -	$1,377	$
March 31, 2001.............	42,940		-	1,884	
Interest income					
Three months ended:					
March 31, 2002.............	283	24	-	93	
March 31, 2001.............	-	-	-	799	
Income from unconsolidated investments					
Three months ended:					
March 31, 2002.............	2,853	-	917	(2,700)	
March 31, 2001.............	2,597	-	673	(1,198)	
NOI					
Three months ended:					
March 31, 2002.............	36,586	4,930	1,703	(744)	
March 31, 2001.............	35,034	-	1,206	(441)	
Fixed asset additions					

Three months ended:					
March 31, 2002.............	3,192	275	-	460	
March 31, 2001.............	7,513	-	-	373	
Total assets					
March 31, 2002.................	847,885	192,911	16,122	24,155	1,0
December 31, 2001..............	866,738	194,406	15,092	23,072	1,0

(1) Approximately 25% of the GLA is occupied by and approximately 16% of annualized revenue is derived from one tenant.

(2) Principally comprised of the Company's interest in Chelsea Japan.

(3) Includes Corporate overhead and assets and results from Chelsea Interactive.

Following is a reconciliation of net operating income to net income for the three months ended March 31, 2002 and 2001 (in thousands):

	Three months ended March 31, 2002	Three months ended March 31, 2001
Segment NOI..	$42,475	$35,799
Interest expense - consolidated................................	(9,750)	(8,615)
Interest expense - unconsolidated investments..................	(128)	(702)
Depreciation and amortization expense - consolidated............	(12,941)	(11,559)
Depreciation and amortization expense - unconsolidated investments................	(1,643)	(1,480)
Depreciation and amortization expense - Chelsea Interactive......................	(1,508)	(580)
Income tax - unconsolidated investments.........................	(259)	(123)
Minority interest..	(3,455)	(3,187)
Net income...	$12,791	$9,553

13. Subsequent Events

On April 1, 2002, the OP acquired Simon's 50% ownership in Orlando Premium Outlets for $46.6 million in cash and assumed Simon's $29.7 million pro-rata share of existing mortgage debt and Simon's pro-rata guarantee related to this loan. After the acquisition, the OP wholly owns the 430,000 square foot center located in Orlando, Florida.

On April 1, 2002, the OP acquired a 305,000 square foot center located in Edinburgh, Indiana for $27.0 million in cash.

Chelsea Property Group, Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in connection with the accompanying unaudited condensed consolidated financial statements and notes thereto. These financial statements include all adjustments, which in the opinion of management are necessary to reflect a fair statement of results for all interim periods presented, and all such adjustments are of a normal reccurring nature.

General Overview

From April 1, 2001 to March 31, 2002, the Company grew by increasing rents at its operating centers, expanding two centers and acquiring 31 retail centers. Increasing rents at operating centers resulted in base rent growth of $1.0 million. The expansion of one wholly-owned center increased base rent by $0.4 million. The acquisition of 31 retail centers increased base rent by $8.4 million. Income from unconsolidated investments increased by $0.5 million during the quarter ended March 31, 2002 as a result of higher earnings, increased fees and the opening of the expansion of Rinku Premium Outlets during March 2002.

The Company operated GLA of 12.6 million square feet at March 31, 2002 compared to 8.2 million square feet of GLA at March 31, 2001. The Company's Premium Portfolio consisted of 27 wholly or partially owned centers containing 8.3 million and 8.2 million square feet of GLA at March 31, 2002 and 2001 respectively. Additionally, at March 31, 2002, the Company wholly-owned 30 Other Retail Centers containing 4.3 million square feet of GLA.

Net GLA added since April 1, 2001 is detailed as follows:

	12 months ended March 31, 2002	3 months ended March 31, 2002	9 months ended December 2001
Changes in GLA (sf in 000's):			
Centers expanded:			
Allen Premium Outlets	119	-	119
Rinku Premium Outlet (40% owned)	70	70	-
Other	(8)	(5)	(3)
Total centers expanded	181	65	116
Centers acquired:			
Kittery Premium Outlets II (1)	21	-	21
Other Retail Centers (1)	4,279	-	4,279
Total centers acquired	4,300		4,300
Center sold:			
Mammoth Premium Outlets	(35)	-	(35)
Net GLA added during the period	4,446	65	4,381
GLA at end of period	12,639	12,639	12,574

(1) Acquired on September 25, 2001.

Results of Operations

Comparison of the three months ended March 31, 2002 to the three months ended March 31, 2001.

Income before minority interest, increased $3.5 million, or 27.5%, to $16.2 million for three months ended March 31, 2002, from $12.7 million for the three months ended March 31, 2001. This increase was primarily the result of the acquisition of the 31 retail centers on September 25, 2001, higher rents on releasing and renewals during 2002 and income from unconsolidated investments partially offset by increased losses from Chelsea Interactive.

Base rentals increased $9.7 million, or 33.9%, to $38.5 million for the three months ended March 31, 2002, from $28.8 million for the three months ended March 31, 2001 due to the acquisition of the 31 retail centers in September 2001, higher average rents on releasing and renewals and the expansion of a center in late 2001.

Percentage rents increased $0.3 million, or 10.9%, to $3.1 million for the three months ended March 31, 2002, from $2.8 million for the three months ended March 31, 2001 primarily due to higher tenant sales and the acquisition of the 31 retail centers in September 2001.

Expense reimbursements, representing contractual recoveries from tenants of certain common area maintenance, operating, real estate tax, promotional and management expenses, increased $2.0 million, or 18.6%, to $12.6 million for the three months ended March 31, 2002, from $10.6 million for the three months ended March 31, 2001, due to the recovery of operating and maintenance costs from increased GLA. Excluding the 31 retail centers acquired in September 2001, the average recovery of reimbursable expenses for the wholly-owned Premium Portfolio was 87% for the three months ended March 31, 2002 compared to 88% for the three months ended March 31, 2001. The average recovery of reimbursable expense for the Other Retail Centers was 52% for the three months ended March 31, 2002.

Other income decreased $0.2 million to $2.5 million for the three months ended March 31, 2002, from $2.7 million for the three months ended March 31, 2001 primarily due to decreased interest income partially offset by an increase in ancillary operating income.

Operating and maintenance expenses increased $4.1 million, or 33.7%, to $16.2 million for the three months ended March 31, 2002, from $12.1 million for the three months ended March 31, 2001. The increase was primarily due to costs related to increased GLA and the acquisition of the 31 new retail centers.

Depreciation and amortization expense increased $1.3 million to $12.9 million for the three months ended March 31, 2002, from $11.6 million for the three months ended March 31, 2001. The increase was due to depreciation of the acquisition of the 31 retail centers and increased GLA.

General and administrative expense increased $0.4 million to $1.5 million for the three months ended March 31, 2002, from $1.1 million for the three months ended March 31, 2001, primarily due to increased salaries and headcount.

Other expenses increased $0.3 million to $1.1 million for the three months ended March 31, 2002, from $0.8 million for the three months ended March 31, 2001 due to ground lease expenses assumed with the acquisition of the 31 retail centers and increased bad debt and legal expenses.

Income from unconsolidated investments increased $0.5 million to $3.8 million for the three months ended March 31, 2002, from $3.3 million for the three months ended March 31, 2001 due to increased earnings from Orlando and Chelsea Japan including a one time leasing fee of $0.2 million from Rinku phase two.

The loss from Chelsea Interactive increased $1.5 million to $2.7 million for the three months ended March 31, 2002, from $1.2 million for the three months ended March 31, 2001. The increase was due to increased payroll, general and administrative and depreciation and amortization expense.

Interest increased $1.2 million to $9.8 million for the three months ended March 31, 2002, from $8.6 million for the three months ended March 31, 2001, due to higher debt balances from acquisitions.

Liquidity and Capital Resources

The Company believes it has adequate financial resources to fund operating expenses, distributions, and planned development, construction and acquisition activities over the short term, which is less than 12 months and the long term, which is 12 months or more. Operating cash flow in 2001 of $121.7 million is expected to increase with a full year of operations of the 4.4 million square feet of GLA added during 2001 and scheduled openings of approximately 127,000 square feet of GLA in 2002. As of March 31, 2002, the Company had adequate funding sources to complete and open all development projects, including those of its e-commerce affiliate, Chelsea Interactive. This will be accomplished with available cash of $19.6 million and $160 million available under the Senior Credit Facility. The Company also has the ability to access the public markets through its $450 million debt shelf registration and its $185 million equity shelf registration.

Operating cash flow is expected to provide sufficient funds for dividends and distributions in accordance with REIT federal income tax requirements. In addition, the Company anticipates retaining sufficient operating cash to fund re-tenanting and lease renewal tenant improvement costs, as well as capital expenditures to maintain the quality of its centers, and meet funding requirements for Chelsea Interactive.

Common distributions declared and recorded during the three months ended March 31, 2002 were $17.8 million, or $0.81 per share or unit. The Company's dividend payout ratio as a percentage of net income before minority interest, depreciation and amortization (exclusive of amortization of deferred financing costs ("FFO")) was 63.9% for the three months ended March 31, 2002. The Senior Credit Facility limits aggregate dividends and distributions to the lesser of (i) 90% of FFO on an annual basis or (ii) 100% of FFO for any two consecutive quarters.

The OP has a $160 million senior unsecured bank line of credit (the "Senior Credit Facility") and has an annual right to request a one-year extension that may be granted at the option of the lenders. The Senior Credit Facility was extended until March 30, 2004. The Company has requested and the lenders are expected to extend the Senior Credit Facility until March 30, 2005. The Senior Credit Facility bears interest on the outstanding balance, payable monthly, at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 1.05% (3.05% at March 31, 2002) or the prime rate, at the Company's option. The LIBOR rate spread ranges from 0.85% to 1.25% depending on the Company's Senior Debt rating. A fee on the unused portion of the Senior Credit Facility is payable quarterly at rates ranging from 0.15% to 0.25% depending on the balance outstanding. At March 31, 2002, the entire $160 million of the Senior Credit Facility was available.

On April 1, 2002, the OP acquired a 305,000 square foot center located in Edinburgh, Indiana for $27.0 million in cash. The center is located 40 miles south of downtown Indianapolis and was 98% leased at the acquisition date. The Company funded the transaction from available cash and the Senior Credit Facility.

Also on April 1, 2002, the OP became the 100% owner of the Orlando Premium Outlets by acquiring Simon's 50% ownership interest for $46.6 million in cash and the assumption of $29.7 million of existing mortgage debt. The cash portion of the transaction was funded by borrowing from the Senior Credit Facility. Following these transactions, the Company had borrowings of $63.0 million outstanding and $97.0 million available on its Senior Credit Facility.

In February 2002 the Company redeemed and retired 136,500 shares of 8.375% Series A Cumulative Redeemable Preferred Stock at $47 per share using available cash of $6.4 million.

Development activity for real estate operations as of March 31, 2002 includes additional phases of three existing centers, totaling 57,000 square feet scheduled to open in mid-2002. The Company is also in the predevelopment stage of domestic projects outside Las Vegas, NV scheduled to open in the fall of 2003; followed by Chicago, IL and Seattle, WA scheduled to open in 2004; and an international project north of Tokyo in Sano scheduled to open in mid-2003. These projects are under development and there can be no assurance that they will be completed or opened, or that there will not be delays in opening or completion. All current development activity will be financed either through project specific secured construction financing, the yen denominated line of credit, available cash or through the Senior Credit Facility. The Company will seek to obtain permanent financing once the projects are completed and income has been stabilized.

The Company has minority interests ranging from 5% to 15% in several outlet centers and outlet development projects in Europe. Five outlet centers, containing approximately 900,000 square feet of GLA, including Bicester Village outside of London, England, La Roca Company Stores outside of Barcelona, Spain, Las Rozas Village outside Madrid, Spain, La Vallee near Disneyland Paris and Maasmechelen Village in Belgium are currently open and operated by Value Retail PLC and its affiliates. There was additional new center developments planned and one new European project is under construction and expected to open in Spring 2003. The Company's total investment in Europe as of March 31, 2002 was $3.7 million. The Company has also agreed to provide up to $24.1 million in limited debt service guarantees under a standby facility for loans arranged by Value Retail PLC, to construct outlet centers in Europe. The term of the standby facility for new guarantees expired in November 2001 and these guarantees shall not be outstanding for longer than five years after project completion. In October 2001 the guarantee was increased to $24.1 million from $22.0 million until April 2002. The Company received $2.1 million in restricted cash collateral for this short-term increase, which will revert back to Value Retail in May 2002.

Orlando Premium Outlets has a $59.4 million construction facility (maximum commitment $62.0 million) that was to mature in February 2002 and which was extended to August 2002. The loan has three additional six-month extension options. The loan bears interest at LIBOR plus 1.30% (3.24% at March 31, 2002) and as of March 31, 2002 was 10% guaranteed by each of the Company and Simon. Changes in debt service coverage ratio provide for a guarantee ranging from 10% to 25% per guarantor and a LIBOR interest rate spread ranging from 130 to 150 basis points. As of April 1, 2002, concurrent with the OP's acquisition of Simon's 50% interest in Orlando Premium Outlets, the OP guarantees 10% of this loan.

In June 1999, the Company entered into an agreement with Mitsubishi Estate Co., Ltd. and Nissho Iwai Corporation to jointly develop, own and operate premium outlet centers in Japan. The joint venture is known as Chelsea Japan Co., Ltd. ("Chelsea Japan"). In conjunction with the agreement, the Company contributed $1.7 million in equity. In addition, an equity investee of the Company entered into a 4 billion yen (approximately US $30.1 million) line of credit guaranteed by the Company and OP to fund its share of construction costs. The line of credit bears interest at yen LIBOR plus 1.35% (1.475% at March 31, 2002) and matures April 2002 and has two one-year extensions. At March 31, 2002, 1.08 billion yen (approximately US $8.1 million) was outstanding under the line of credit. In March 2000, Chelsea Japan entered into a 3.8 billion yen (approximately US $28.6 million) loan with a Japanese bank to fund construction costs. The loan matures in 2012 and as of March 31, 2002, the entire facility was outstanding and bears interest at 2.20%. On March 29, 2002 Chelsea Japan entered into a 600 million yen (approximately US $4.5 million) loan with a Japanese bank to fund construction on the second phase of Rinku. The loan matures in 2015 and as of March 31, 2002, the entire facility is outstanding and bears interest at 1.5%. Both loans are secured by the two operating properties and are 40% guaranteed by the Company. Subject to governmental and other approvals, Chelsea Japan expects to announce additional projects during 2002. Funding for such construction is anticipated to be through partner loans or a loan with a Japanese bank.

In July 2000, the Company developed an e-commerce venture through its affiliate, Chelsea Interactive. The Company's funding to this venture was $45.8 million as of March 31, 2002. The Board of Directors has approved funding up to $60.0 million. The Company anticipates funding the balance of development costs during the next twenty-four months; however there can be no assurance that future revenue will be adequate to recover the Company's investment.

To achieve planned growth and favorable returns in both the short and long-term, the Company's financing strategy is to maintain a strong, flexible financial position by: (i) maintaining a conservative level of leverage; (ii) extending and sequencing debt maturity dates; (iii) managing exposure to floating interest rates; and (iv) maintaining liquidity. Management believes these strategies will enable the Company to access a broad array of capital sources, including bank or institutional borrowings and secured and unsecured debt and equity offerings, subject to market conditions.

Net cash provided by operating activities decreased $6.6 million for the three months ended March 31, 2002 compared to the corresponding 2001 period. The decrease was primarily due to the payout of the deferred incentive compensation in March 2002, partially offset by the increased operating cash flow generated from the growth of the Company's GLA. Net cash used in investing activities increased $2.1 million for the three months ended March 31, 2002 compared to the corresponding 2001 period as a result of increased development costs and reduced distributions from investments in unconsolidated affiliates in excess of earnings offset by decreased rental properties additions. Net cash used in financing activities increased by $26.2 million compared to the corresponding period in 2001 as a result of reduced net debt borrowings and the redemption and retirement of the Company's preferred stock, offset by increased sales of the Company's common stock.

Funds from Operations

Management believes that funds from operations ("FFO") should be considered in conjunction with net income, as presented in the statements of operations included elsewhere herein, to facilitate a clearer understanding of the operating results of the Company. The White Paper on Funds from Operations ("FFO") approved by the Board of Governors of NAREIT in October 1999 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes FFO in accordance with the current standards established by NAREIT which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

	Three Months Ended March 31, 2002	2001
Income available to common shareholders	$11,887	$8,506
Add/(deduct):		
Depreciation and amortization-wholly-owned	12,941	11,559
Depreciation and amortization-joint ventures	1,643	1,480
Amortization of deferred financing costs and depreciation of non-rental real estate assets	(552)	(408)
Minority interest	3,455	3,187
Preferred unit distribution	(1,462)	(1,462)
FFO	$27,912	$ 22,862
Average shares/units outstanding	22,538	19,709
Dividends declared per share	$0.81	$0.78

Recent Accounting Pronouncements

In October 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This standard harmonizes the accounting for impaired assets and resolves some of the implementation issues as originally described in SFAS 121. The new standard became effective and was adapted by the Company on January 1, 2002. The adoption of this pronouncement has not had a material impact on the Company's results of operations or financial position.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Bad Debt

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its tenants to make required rent payments. If the financial condition of the Company's tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Foreign Exchange Exposure

From time to time, the Company may enter into hedging contracts to protect against fluctuations in foreign exchange rates. Receivables from Chelsea Japan are recorded in the accompanying financial statements at the exchange rate on the date of valuation. Significant changes in the exchange rate may result in changes to the receivable realized.

Valuation of Investments

The Company reviews its investments in unconsolidated affiliates for impairment wherever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Economic Conditions

Substantially all leases contain provisions, including escalations of base rents and percentage rentals calculated on gross sales, to mitigate the impact of inflation. Inflationary increases in common area maintenance and real estate tax expenses are substantially all reimbursed by tenants.

Virtually all tenants have met their lease obligations and the Company continues to attract and retain quality tenants. The Company intends to reduce operating and leasing risks by continually improving its tenant mix, rental rates and lease terms, and by pursuing contracts with creditworthy upscale and national brand-name tenants.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to changes in interest rates primarily from its floating rate debt arrangements. In December 2000, the Company implemented a policy to protect against interest rate and foreign exchange risk. The Company's primary strategy is to protect against this risk by using derivative transactions as appropriate to minimize the variability that floating rate interest and foreign currency fluctuations could have on cash flow. In December 2000, a wholly-owned subsidiary of the Company entered into an interest rate swap agreement effective January 2, 2001 with a financial institution for a notional amount of $69.3 million amortizing to $64.1 million to hedge against unfavorable fluctuations in the LIBOR rates of its secured mortgage loan facility. The hedge effectively produces a fixed interest rate of 7.2625% on the notional amount until January 1, 2006.

At March 31, 2002 a hypothetical 100 basis point adverse move (increase) in U.S. Treasury and LIBOR rates applied to unhedged debt would adversely affect the Company's annual interest cost by approximately $0.3 million annually.

Following is a summary of the Company's debt obligations at March 31, 2002 (in thousands):

	Expected Maturity Date							
	2002	2003	2004	2005	2006	Thereafter	Total	Fair Val
Fixed Rate Debt	-	-	-	$ 49,900	-	$ 395,628	$ 445,528	$ 459,72
Average Interest Rate	-	-	-	8.38%	-	7.88%	7.93%	
Variable Rate Debt	-	$29,691	$5,035	-	-	$68,000	$ 102,726	$ 102,72
Average Interest Rate	-	3.29%	3.05%	-	-	5.56%	4.78%	

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

None.

Chelsea Property Group, Inc.

Signatures

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.

CHELSEA PROPERTY GROUP, INC.

By: /s/ Michael J. Clarke
Michael J. Clarke
Chief Financial Officer

Date: May 7, 2002