FIRST INDUSTRIAL REALTY TRUST INC
Form 10-K
February 26, 2008

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

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2007
	or
o	**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 1-13102

FIRST INDUSTRIAL REALTY TRUST, INC.
(Exact name of Registrant as specified in its Charter)

Maryland	**36-3935116**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
311 S. Wacker Drive, Suite 4000, Chicago, Illinois	**60606**
(Address of principal executive offices)	*(Zip Code)*

(312) 344-4300
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock
(Title of class)

New York Stock Exchange
(Name of exchange on which registered)

Depositary Shares Each Representing 1/10,000 of a Share of 7.25% Series J Cumulative Preferred Stock
Depositary Shares Each Representing 1/10,000 of a Share of 7.25% Series K Cumulative Preferred Stock
(Title of class)

New York Stock Exchange
(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant was approximately $1,706.2 million based on the closing price on the New York Stock Exchange for such stock on June 30, 2007.

At February 15, 2008, 43,574,385 shares of the Registrant s Common Stock, $0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference to the Registrant s definitive proxy statement expected to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant s fiscal year.

FIRST INDUSTRIAL REALTY TRUST, INC.

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This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects include, but are not limited to, changes in: international, national, regional and local economic conditions generally and the real estate market specifically, legislative/regulatory changes (including changes to laws governing the taxation of real estate investment trusts), availability of financing, interest rates, competition, supply and demand for industrial properties in our current and proposed market areas, potential environmental liabilities, slippage in development or lease-up schedules, tenant credit risks, higher-than-expected costs and changes in general accounting principles, policies and guidelines applicable to real estate investment trusts and risks related to doing business internationally (including foreign currency exchange risks). These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect our financial results, is included in Item 1A, Risk Factors and in our other filings with the Securities and Exchange Commission. Unless the context otherwise requires, the terms the Company, we, us, and our refer to First Industria Realty Trust, Inc., First Industrial, L.P. and their other controlled subsidiaries. We refer to our operating partnership, First Industrial, L.P., as the Operating Partnership, and our taxable REIT subsidiary, First Industrial Investment, Inc., as the TRS.

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PART I

THE COMPANY

Item 1. *Business*

General

First Industrial Realty Trust, Inc. is a Maryland corporation organized on August 10, 1993, and is a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986 (the Code). We are a self-administered and fully integrated real estate company which owns, manages, acquires, sells, develops, and redevelops industrial real estate. As of December 31, 2007, our in-service portfolio consisted of 403 light industrial properties, 125 R&D/flex properties, 162 bulk warehouse properties, 89 regional warehouse properties and 25 manufacturing properties containing approximately 64.0 million square feet of gross leasable are (GLA) located in 28 states in the United States and one province in Canada. Our in-service portfolio includes all properties other than developed, redeveloped and acquired properties that have not yet reached stabilized occupancy (generally defined as properties that are 90% leased).

Our interests in our properties and land parcels are held through partnerships, corporations, and limited liability companies controlled, directly or indirectly, by the Company, including the Operating Partnership, of which we are the sole general partner with an approximate 87.1% and 87.3% ownership interest at December 31, 2007 and December 31, 2006, respectively, as well as, among others, the TRS which is a taxable REIT subsidiary of which the Operating Partnership is the sole stockholder, all of whose operating data is consolidated with that of the Company as presented herein.

We also own minority equity interests in, and provide various services to, five joint ventures which invest in industrial properties (the 2003 Net Lease Joint Venture, the 2005 Development/Repositioning Joint Venture, the 2005 Core Joint Venture, the 2006 Net Lease Co-Investment Program and the 2006 Land/Development Joint Venture). We also owned economic interests in and provided various services to a sixth joint venture, (the 1998 Core Joint Venture). On January 31, 2007 we purchased the 90% equity interest from the institutional investor in the 1998 Core Joint Venture. Effective January 31, 2007, the assets and liabilities and results of operations of the 1998 Core Joint Venture are consolidated with the Company since we own 100% of the equity interest. Prior to January 31, 2007, the 1998 Core Joint Venture was accounted for under the equity method of accounting. Additionally, in December 2007, we entered into two new joint ventures with institutional investors to invest in, own, develop, redevelop and operate industrial properties, (the 2007 Canada Joint Venture and the 2007 Europe Joint Venture ; together with 2003 Net Lease Joint Venture, 2005 Development/Repositioning Joint Venture, 2005 Core Joint Venture, the 2006 Net Lease Co-Investment Program, the 2006 Land/Development Joint Venture and the 1998 Core Joint Venture, the Joint Ventures). We own a 10% interest in and will provide property management, asset management, development management and leasing management services to the 2007 Canada Joint Venture and the 2007 Europe Joint Venture. As of December 31, 2007, the 2007 Canada Joint Venture and the 2007 Europe Joint Venture did not own any properties.

The operating data of our Joint Ventures is not consolidated with that of the Company as presented herein. However, the operating data of the 2005 Development/Repositioning Joint Venture, referred to as FirstCal Industrial, LLC, is separately presented on a consolidated basis, separate from that of the Company.

We utilize an operating approach which combines the effectiveness of decentralized, locally-based property management, acquisition, sales and development functions with the cost efficiencies of centralized acquisition, sales and development support, capital markets expertise, asset management and fiscal control systems. At February 15, 2008, we had approximately 518 employees.

We have grown and will seek to continue to grow through the development and acquisition of additional industrial properties, through additional joint venture investments and through our corporate services program.

We maintain a website at www.firstindustrial.com. Information on this website shall not constitute part of this Form 10-K. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available without charge on our website as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission (the SEC). In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter, Nominating/Corporate Governance Committee Charter, along with supplemental financial and operating information prepared by us, are all available without charge on our website or upon request to us. Amendments to, or waivers from, our Code of Business Conduct and Ethics that apply to our executive officers or directors shall also be posted to our website. Please direct requests as follows:

First Industrial Realty Trust, Inc.
311 S. Wacker, Suite 4000
Chicago, IL 60606
Attn: Investor Relations

Business Objectives and Growth Plans

Our fundamental business objective is to maximize the total return to our stockholders through increases in per share distributions and increases in the value of our properties and operations. Our growth plans include the following elements:

Internal Growth. We seek to grow internally by (i) increasing revenues by renewing or re-leasing spaces subject to expiring leases at higher rental levels; (ii) increasing occupancy levels at properties where vacancies exist and maintaining occupancy elsewhere; (iii) controlling and minimizing property operating and general and administrative expenses; (iv) renovating existing properties; and (v) increasing ancillary revenues from non-real estate sources.

External Growth. We seek to grow externally through (i) the development of industrial properties; (ii) the acquisition of portfolios of industrial properties, industrial property businesses or individual properties which meet our investment parameters and target markets; (iii) additional joint venture investments; and (iv) the expansion of our properties.

Corporate Services. Through our corporate services program, we build for, purchase from, and lease and sell industrial properties to companies that need industrial facilities. We seek to grow this business by targeting both large and middle-market public and private companies.

Business Strategies

We utilize the following six strategies in connection with the operation of our business:

Organization Strategy. We implement our decentralized property operations strategy through the deployment of experienced regional management teams and local property managers. Each operating region is headed by a managing director who is a senior executive officer of, and has an equity interest in, the Company. We provide acquisition, development and financing assistance, asset management oversight and financial reporting functions from our headquarters in Chicago, Illinois to support our regional operations. We believe the size of our portfolio enables us to realize operating efficiencies by spreading overhead among many properties and by negotiating purchasing discounts.

Market Strategy. Our market strategy is to concentrate on the top industrial real estate markets in the United States and select industrial real estate markets in Canada, the Netherlands and Belgium. These markets have one or more of the following characteristic: (i) strong industrial real estate fundamentals, including increased industrial demand expectations; (ii) a history of and outlook for continued economic growth and industry diversity; and (iii) sufficient size to provide for ample transaction volume.

Leasing and Marketing Strategy. We have an operational management strategy designed to enhance tenant satisfaction and portfolio performance. We pursue an active leasing strategy, which includes broadly marketing available space, seeking to renew existing leases at higher rents per square foot and seeking leases which provide for the pass-through of property-related expenses to the tenant. We also have local and national marketing programs which focus on the business and real estate brokerage communities and national tenants.

Acquisition/Development Strategy. Our acquisition/development strategy is to invest in properties and other assets with higher yield potential in the top industrial real estate markets in the United States and select industrial real estate markets in Canada, the Netherlands and Belgium. Of the 804 industrial properties in our in-service portfolio at December 31, 2007, 112 properties have been developed by us or our former management. We will continue to leverage the development capabilities of our management, many of whom are leading industrial property developers in their respective markets.

Disposition Strategy. We continuously evaluate local market conditions and property-related factors in all of our markets for purposes of identifying assets suitable for disposition.

Financing Strategy. We plan on utilizing a portion of net sales proceeds from property sales, borrowings under our unsecured line of credit and proceeds from the issuance, when and as warranted, of additional debt and equity securities to finance future acquisitions and developments. We also continually evaluate joint venture arrangements as another source of capital. As of February 15, 2008, we had approximately $47.9 million available for additional borrowings under our unsecured line of credit (the Unsecured Line of Credit).

Recent Developments

In 2007, we acquired or placed in-service developments totaling 119 industrial properties and acquired several parcels of land for a total investment of approximately $609.8 million. We also sold 164 industrial properties and several parcels of land for a gross sales price of approximately $881.3 million. At December 31, 2007, we owned 804 in-service industrial properties containing approximately 64.0 million square feet of GLA.

In December 2007, we entered into two new joint ventures, the 2007 Canada Joint Venture and the 2007 Europe Joint Venture.

During the year ended December 31, 2007, we repurchased 1,797,714 shares of our own stock at an average price per share of $38.62, including brokerage commissions.

During 2007, in conjunction with the acquisition of several industrial properties, we assumed mortgage loans payable in the aggregate of $38.6 million; these mortgage loans payable were paid off and retired in 2007.

On May 7, 2007, we issued $150.0 million of senior unsecured debt which matures on May 15, 2017 and bears interest at a rate of 5.95% (the 2017 II Notes). The issue price of the 2017 II Notes was 99.730%. In April 2006, we entered into interest rate protection agreements to fix the interest rate on the 2017 II Notes prior to issuance. The effective portion of the interest rate protection agreements were settled on May 1, 2007 for a payment of $4.3 million, which is included in other comprehensive income and will be amortized over the life of the notes.

On May 15, 2007, we paid off and retired our 7.60% 2007 Unsecured Notes in the amount of $150.0 million.

On September 28, 2007, we amended and restated our Unsecured Line of Credit. The Unsecured Line of Credit matures on September 28, 2012, has a borrowing capacity of $500.0 million (with the right, subject to certain conditions, to increase the borrowing capacity up to $700.0 million) and bears interest at a floating rate of LIBOR plus 0.475%, or the prime rate, at our election. Up to $100.0 million of the $500.0 million capacity may be borrowed in foreign currencies, including the Canadian dollar, Euro, British Sterling and Japanese Yen.

On January 31, 2007, we purchased the 90% equity interest in the 1998 Core Joint Venture from our partner. We paid $18.5 million in cash and assumed $30.3 million in mortgage loans payable. As of December 31, 2007, all of these mortgage loans payable were paid off and retired.

On February 27, 2007, we redeemed the 85% equity interest in one legal entity which owned one property from the institutional investor in the 2003 Net Lease Joint Venture. In connection with the redemption, we assumed a $8.3 million mortgage loan payable and $3.0 million in other liabilities. The mortgage loan payable was subsequently paid off in February 2007.

Future Property Acquisitions, Developments and Property Sales

We have an active acquisition and development program through which we are continually engaged in identifying, negotiating and consummating portfolio and individual industrial property acquisitions and developments. As a result, we are currently engaged in negotiations relating to the possible acquisition and development of certain industrial properties.

We also sell properties based on market conditions and property related factors. As a result, we are currently engaged in negotiations relating to the possible sale of certain industrial properties in our portfolio.

When evaluating potential industrial property acquisitions and developments, as well as potential industrial property sales, we will consider such factors as: (i) the geographic area and type of property; (ii) the location, construction quality, condition and design of the property; (iii) the potential for capital appreciation of the property; (iv) the ability of the Company to improve the property s performance through renovation; (v) the terms of tenant leases, including the potential for rent increases; (vi) the potential for economic growth and the tax and regulatory environment of the area in which the property is located; (vii) the potential for expansion of the physical layout of the property and/or the number of sites; (viii) the occupancy and demand by tenants for properties of a similar type in the vicinity; and (ix) competition from existing properties and the potential for the construction of new properties in the area.

INDUSTRY

Industrial properties are typically used for the design, assembly, packaging, storage and distribution of goods and/or the provision of services. As a result, the demand for industrial space in the United States is related to the level of economic output. Historically, occupancy rates for industrial property in the United States have been higher than those for other types of commercial property. We believe that the higher occupancy rate in the industrial property sector is a result of the construction-on-demand nature of, and the comparatively short development time required for, industrial property. For the five years ended December 31, 2007, the occupancy rates for industrial properties in the United States have ranged from 88.2%* to 90.8%*, with an occupancy rate of 90.6%* at December 31, 2007.

* Source: Torto Wheaton Research

Item 1A. ***Risk Factors***

Risk Factors

Our operations involve various risks that could adversely affect our financial condition, results of operations, cash flow, ability to pay distributions on our common stock and the market price of our common stock. These risks, among others contained in our other filings with the SEC, include:

Real estate investments value fluctuates depending on conditions in the general economy and the real estate business. These conditions may limit the Company s revenues and available cash.

The factors that affect the value of our real estate and the revenues we derive from our properties include, among other things:

- general economic conditions;
- local, regional, national and international economic conditions and other events and occurrences that affect the markets in which we own properties;
- local conditions such as oversupply or a reduction in demand in an area;
- the attractiveness of the properties to tenants;
- tenant defaults;
- zoning or other regulatory restrictions;
- competition from other available real estate;
- our ability to provide adequate maintenance and insurance; and
- increased operating costs, including insurance premiums and real estate taxes.

Many real estate costs are fixed, even if income from properties decreases.

Our financial results depend on leasing space to tenants on terms favorable to us. Our income and funds available for distribution to our stockholders will decrease if a significant number of our tenants cannot pay their rent or we are unable to lease properties on favorable terms. In addition, if a tenant does not pay its rent, we may not be able to enforce our rights as landlord without delays and we may incur substantial legal costs. Costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced when circumstances cause a reduction in income from the investment.

The Company may be unable to sell properties when appropriate because real estate investments are not as liquid as certain other types of assets.

Real estate investments generally cannot be sold quickly and, therefore, will tend to limit our ability to adjust our property portfolio promptly in response to changes in economic or other conditions. The inability to respond promptly to changes in the performance of our property portfolio could adversely affect our financial condition and ability to service debt and make distributions to our stockholders. In addition, like other companies qualifying as REITs under the Internal Revenue Code (the Code), we must comply with the safe harbor rules relating to the number of properties disposed of in a year, their tax basis and the cost of improvements made to the properties, or meet other tests which enable a REIT to avoid punitive taxation on the sale of assets. Thus, our ability at any time to sell assets may be restricted.

The Company may be unable to sell properties on advantageous terms.

We have sold to third parties a significant number of properties in recent years and, as part of our business, we intend to continue to sell properties to third parties. Our ability to sell properties on advantageous terms depends on factors beyond our control, including competition from other sellers and the availability of attractive financing for potential buyers of our properties. If we are unable to sell properties on favorable terms or redeploy the proceeds of property sales in accordance with our business strategy, then our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of, our common stock could be adversely affected.

We have also sold to our joint ventures a significant number of properties in recent years and, as part of our business, we intend to continue to sell or contribute properties to our joint ventures as opportunities arise. If we do not have sufficient properties available that meet the investment criteria of current or future joint ventures, or if the joint ventures have reduced or do not have access to capital on favorable terms, then such sales could be delayed or prevented, adversely affecting our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of, our common stock.

The Company may be unable to acquire properties on advantageous terms or acquisitions may not perform as the Company expects.

We acquire and intend to continue to acquire primarily industrial properties. The acquisition of properties entails various risks, including the risks that our investments may not perform as expected and that our cost estimates for bringing an acquired property up to market standards may prove inaccurate. Further, we face significant competition for attractive investment opportunities from other well-capitalized real estate investors, including both publicly-traded REITs and private investors. This competition increases as investments in real estate become attractive relative to other forms of investment. As a result of competition, we may be unable to acquire additional properties as we desire or the purchase price may be elevated. In addition, we expect to finance future acquisitions through a combination of borrowings under the Unsecured Line of Credit, proceeds from equity or debt offerings by the Company and proceeds from property sales, which may not be available and which could adversely affect our cash flow. Any of the above risks could adversely affect our financial condition, results of operations, cash flow and ability to pay dividends on, and the market value of, our common stock.

The Company may be unable to complete development and re-development projects on advantageous terms.

As part of our business, we develop new and re-develop existing properties. In addition, we have sold to third parties or sold to our joint ventures a significant number of development and re-development properties in recent years, and we intend to continue to sell such properties to third parties or to sell or contribute such properties to our joint ventures as opportunities arise. The real estate development and re-development business involves significant risks that could adversely affect our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of our common stock, which include:

- we may not be able to obtain financing for development projects on favorable terms and complete construction on schedule or within budget, resulting in increased debt service expense and construction costs and delays in leasing the properties and generating cash flow;

- we may not be able to obtain, or may experience delays in obtaining, all necessary zoning, land-use, building, occupancy and other governmental permits and authorizations;

- the properties may perform below anticipated levels, producing cash flow below budgeted amounts and limiting our ability to sell such properties to third parties or to sell such properties to our joint ventures.

The Company may be unable to renew leases or find other lessees.

We are subject to the risks that, upon expiration, leases may not be renewed, the space subject to such leases may not be relet or the terms of renewal or reletting, including the cost of required renovations, may be less favorable than expiring lease terms. If we were unable to promptly renew a significant number of expiring leases or to promptly relet the space covered by such leases, or if the rental rates upon renewal or reletting were significantly lower than the current rates, our financial condition, results of operation, cash flow and ability to pay dividends on, and the market price of our common stock could be adversely affected. As of

December 31, 2007, leases with respect to approximately 12.6 million, 10.1 million and 9.6 million square feet of GLA, representing 21%, 17% and 16% of GLA, expire in 2008, 2009 and 2010, respectively.

The Company might fail to qualify or remain qualified as a REIT.

We intend to operate so as to qualify as a REIT under the Code. Although we believe that we are organized and will operate in a manner so as to qualify as a REIT, qualification as a REIT involves the satisfaction of numerous requirements, some of which must be met on a recurring basis. These requirements are established under highly technical and complex Code provisions of which there are only limited judicial or administrative interpretations and involve the determination of various factual matters and circumstances not entirely within our control.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at corporate rates. This could result in a discontinuation or substantial reduction in dividends to stockholders and in cash to pay interest and principal on debt securities that we issue. Unless entitled to relief under certain statutory provisions, we would be disqualified from electing treatment as a REIT for the four taxable years following the year during which we failed to qualify as a REIT.

Certain property transfers may generate prohibited transaction income, resulting in a penalty tax on the gain attributable to the transaction.

As part of our business, we sell properties to third parties or sell properties to our joint ventures as opportunities arise. Under the Code, a 100% penalty tax could be assessed on the gain resulting from sales of properties that are deemed to be prohibited transactions. The question of what constitutes a prohibited transaction is based on the facts and circumstances surrounding each transaction. The IRS could contend that certain sales of properties by us are prohibited transactions. While we do not believe that the IRS would prevail in such a dispute, if the matter were successfully argued by the IRS, the 100% penalty tax could be assessed against the profits from these transactions. In addition, any income from a prohibited transaction may adversely affect our ability to satisfy the income tests for qualification as a REIT.

The REIT distribution requirements may require the Company to turn to external financing sources.

We could, in certain instances, have taxable income without sufficient cash to enable us to meet the distribution requirements of the REIT provisions of the Code. In that situation, we could be required to borrow funds or sell properties on adverse terms in order to meet those distribution requirements. In addition, because we must distribute to our stockholders at least 90% of our REIT taxable income each year, our ability to accumulate capital may be limited. Thus, in connection with future acquisitions, we may be more dependent on outside sources of financing, such as debt financing or issuances of additional capital stock, which may or may not be available on favorable terms. Additional debt financings may substantially increase our leverage and additional equity offerings may result in substantial dilution of stockholders interests.

Debt financing, the degree of leverage and rising interest rates could reduce the Company s cash flow.

Where possible, we intend to continue to use leverage to increase the rate of return on our investments and to allow us to make more investments than we otherwise could. Our use of leverage presents an additional element of risk in the event that the cash flow from our properties is insufficient to meet both debt payment obligations and the distribution requirements of the REIT provisions of the Code. In addition, rising interest rates would reduce our cash flow by increasing the amount of interest due on our floating rate debt and on our fixed rate debt as it matures and is refinanced.

Cross-collateralization of mortgage loans could result in foreclosure on substantially all of the Company s properties if the Company is unable to service its indebtedness.

If the Operating Partnership decides to obtain additional debt financing in the future, it may do so through mortgages on some or all of its properties. These mortgages may be issued on a recourse, non-recourse or cross-collateralized basis. Cross-collateralization makes all of the subject properties available to the lender in order to satisfy our debt. Holders of indebtedness that is so secured will have a claim against these properties. To the extent indebtedness is cross-collateralized, lenders may seek to foreclose upon properties that are not the primary collateral for their loan, which may, in turn, result in acceleration of other indebtedness secured by properties. Foreclosure of properties would result in a loss of income and asset value to us, making it difficult for us to meet both debt payment obligations and the distribution requirements of the REIT provisions of the Code. As of December 31, 2007, none of our current indebtedness was cross-collateralized.

The Company may have to make lump-sum payments on its existing indebtedness.

We are required to make the following lump-sum or balloon payments under the terms of some of our indebtedness, including indebtedness of the Operating Partnership:

$50.0 million aggregate principal amount of 7.75% Notes due 2032 (the 2032 Notes)

$200.0 million aggregate principal amount of 7.60% Notes due 2028 (the 2028 Notes)

approximately $15.0 million aggregate principal amount of 7.15% Notes due 2027 (the 2027 Notes)

$150.0 million aggregate principal amount of 5.95% Notes due 2017 (the 2017 II Notes)

$100.0 million aggregate principal amount of 7.50% Notes due 2017 (the 2017 Notes)

$200.0 million aggregate principal amount of 5.75% Notes due 2016 (the 2016 Notes)

$125.0 million aggregate principal amount of 6.42% Notes due 2014 (the 2014 Notes)

$200.0 million aggregate principal amount of 6.875% Notes due 2012 (the 2012 Notes)

$200.0 million aggregate principal amount of 4.625% Notes due 2011 (the 2011 Exchangeable Notes)

$200.0 million aggregate principal amount of 7.375% Notes due 2011 (the 2011 Notes)

$125.0 million aggregate principal amount of 5.25% Notes due 2009 (the 2009 Notes)

$500.0 million Unsecured Line of Credit under which we may borrow to finance the acquisition of additional properties and for other corporate purposes, including working capital.

The Unsecured Line of Credit provides for the repayment of principal in a lump-sum or balloon payment at maturity in 2012. Under the Unsecured Line of Credit, we have the right, subject to certain conditions, to increase the aggregate commitment by up to $200.0 million. As of December 31, 2007, $322.1 million was outstanding under the Unsecured Line of Credit at a weighted average interest rate of 5.787%.

Our ability to make required payments of principal on outstanding indebtedness, whether at maturity or otherwise, may depend on our ability either to refinance the applicable indebtedness or to sell properties. We have no commitments to refinance the 2009 Notes, the 2011 Notes, the 2011 Exchangeable Notes, the 2012 Notes, the 2014 Notes, the 2016 Notes, the 2017 Notes, the 2017 II Notes, the 2027 Notes, the 2028 Notes, the 2032 Notes or the Unsecured Line of Credit. Some of our existing debt obligations, other than those discussed above, are secured by our properties, and therefore such obligations will permit the lender to foreclose on those properties in the event of a default.

There is no limitation on debt in the Company s organizational documents.

Our organizational documents do not contain any limitation on the amount or percentage of indebtedness we may incur. Accordingly, we could become more highly leveraged, resulting in an increase in debt service that could adversely affect our ability to make expected distributions to stockholders and in an increased risk of default on our obligations. As of December 31, 2007, our ratio of debt to our total market capitalization was 49.2%. We compute that percentage by calculating our total consolidated debt as a percentage of the aggregate market value of all outstanding shares of our common stock, assuming the exchange of all limited partnership units of the Operating Partnership for common stock, plus the aggregate stated value of all outstanding shares of preferred stock and total consolidated debt.

Rising interest rates on the Company s Unsecured Line of Credit could decrease the Company s available cash.

Our Unsecured Line of Credit bears interest at a floating rate. As of December 31, 2007, our Unsecured Line of Credit had an outstanding balance of $322.1 million at a weighted average interest rate of 5.787%. Our Unsecured Line of Credit bears interest at the prime rate or at the LIBOR plus 0.475%, at our election. Based on an outstanding balance on our Unsecured Line of Credit as of December 31, 2007, a 10% increase in interest rates would increase interest expense by $1.9 million on an annual basis. Increases in the interest rate payable on balances outstanding under our Unsecured Line of Credit would decrease our cash available for distribution to stockholders.

Earnings and cash dividends, asset value and market interest rates affect the price of the Company s common stock.

As a REIT, the market value of our common stock, in general, is based primarily upon the market s perception of our growth potential and our current and potential future earnings and cash dividends. The market value of our common stock is based secondarily upon the market value of our underlying real estate assets. For this reason, shares of our common stock may trade at prices that are higher or lower than our net asset value per share. To the extent that we retain operating cash flow for investment purposes, working capital reserves, or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our common stock. Our failure to meet the market s expectations with regard to future earnings and cash dividends likely would adversely affect the market price of our common stock. Further, the distribution yield on the common stock (as a percentage of the price of the common stock) relative to market interest rates may also influence the price of our common stock. An increase in market interest rates might lead prospective purchasers of our common stock to expect a higher distribution yield, which would adversely affect the market price of our common stock. Additionally, if the market price of our common stock declines significantly, then we might breach certain covenants with respect to our debt obligations, which could adversely affect our liquidity and ability to make future acquisitions and our ability to pay dividends to our stockholders.

The Company may incur unanticipated costs and liabilities due to environmental problems.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real estate may be liable for the costs of clean-up of certain conditions relating to the presence of hazardous or toxic materials on, in or emanating from a property, and any related damages to natural resources. Environmental laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous or toxic materials. The presence of such materials, or the failure to address those conditions properly, may adversely affect the ability to rent or sell the property or to borrow using a property as collateral. Persons who dispose of or arrange for the disposal or treatment of hazardous or toxic materials may also be liable for the costs of clean-up of such materials, or for related natural resource damages, at or from an off-site disposal or treatment facility, whether or not the facility is owned or operated by those persons. No assurance can be given that existing environmental assessments with respect to any of our properties reveal all environmental liabilities, that any prior owner or operator of any of the properties did not create any material environmental condition not known to us or that a material environmental condition does not otherwise exist as to any of our Company s properties.

The Company s insurance coverage does not include all potential losses.

We currently carry comprehensive insurance coverage including property, boiler & machinery, liability, fire, flood, terrorism, earthquake, extended coverage and rental loss as appropriate for the markets where each of our properties and their business operations are located. The insurance coverage contains policy specifications and insured limits customarily carried for similar properties and business activities. We believe our properties are adequately insured. However, there are certain losses, including losses from earthquakes, hurricanes, floods, pollution, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, we could experience a significant loss of capital invested and potential revenues from these properties, and could potentially remain obligated under any recourse debt associated with the property.

The Company is subject to risks and liabilities in connection with its investments in properties through joint ventures.

As of December 31, 2007, five of our joint ventures owned approximately 19.9 million square feet of properties. As of December 31, 2007, our investment in joint ventures exceeded $57.5 million in the aggregate, and for the year ended December 31, 2007, our equity in income of joint ventures exceeded $30.0 million. Our organizational documents do not limit the amount of available funds that we may invest in joint ventures and we intend to continue to develop and acquire properties through joint ventures with other persons or entities when warranted by the circumstances. Joint venture investments, in general, involve certain risks, including:

co-members or joint venturers may share certain approval rights over major decisions;

co-members or joint venturers might fail to fund their share of any required capital commitments;

co-members or joint venturers might have economic or other business interests or goals that are inconsistent with our business interests or goals that would affect our ability to operate the property;

co-members or joint venturers may have the power to act contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a real estate investment trust;

the joint venture agreements often restrict the transfer of a member s or joint venturer s interest or buy-sell or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;

disputes between us and our co-members or joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and subject the properties owned by the applicable joint venture to additional risk; and

we may in certain circumstances be liable for the actions of our co-members or joint venturers.

The occurrence of one or more of the events described above could adversely affect our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of, our common stock.

In addition, joint venture investments in real estate involve all of the risks related to the ownership, acquisition, development, sale and financing of real estate discussed in the risk factors above. To the extent our investments in joint ventures are adversely affected by such risks our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of, our common stock could be adversely affected.

We are subject to risks associated with our international operations.

Under our market strategy, we plan to acquire and develop properties outside of the United States, including in Canada, the Netherlands and Belgium. Our international operations will be subject to risks inherent in doing business abroad, including:

exposure to the economic fluctuations in the locations in which we invest;

difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations;

revisions in tax treaties or other laws and regulations, including those governing the taxation of our international revenues;

obstacles to the repatriation of earnings and funds;

currency exchange rate fluctuations between the United States dollar and foreign currencies;

restrictions on the transfer of funds; and

national, regional and local political uncertainty.

We also have offices outside of the United States. Our ability to effectively establish, staff and manage these offices is subject to risks associated with employment practices, labor issues, and cultural factors that differ from those with which we are familiar. In addition, we may be subject to regulatory requirements and prohibitions that differ between jurisdictions. As we continue to expand our business globally, we may have difficulty anticipating and effectively managing these and other risks that our international operations may face, which may adversely affect our business outside the United States and our financial condition and results of operations.

Acquired properties may be located in new markets, where we may face risks associated with investing in an unfamiliar market.

When we acquire properties located outside of the United States, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. We work to mitigate such risks through extensive diligence and research and associations with experienced partners; however, there can be no guarantee that all such risks will be eliminated.

Potential fluctuations in exchange rates between the U.S. dollar and the currencies of the other countries in which we invest may adversely affect our results of operations and financial position.

Owning, operating and developing industrial property outside of the United States exposes the Company to the possibility of volatile movements in foreign exchange rates. Changes in foreign currencies can affect the operating results of international operations reported in US dollars and the value of the foreign assets reported in US dollars. The economic impact of foreign exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. A significant depreciation in the value of the currency of one or more countries where we have a significant investment may materially affect our results of operations.

Item 1B. ***Unresolved SEC Comments***

None.

Item 2. ***Properties***

General

At December 31, 2007, we owned 804 in-service industrial properties containing an aggregate of approximately 64.0 million square feet of GLA in 28 states and one province in Canada, with a diverse base of more than 2,300 tenants engaged in a wide variety of businesses, including manufacturing, retail, wholesale trade, distribution and professional services. The properties are generally located in business parks that have convenient access to interstate highways and/or rail and air transportation. The weighted average age of the properties as of December 31, 2007 was approximately 20 years. We maintain insurance on our properties that we believe is adequate.

We classify our properties into five industrial categories: light industrial, R&D/flex, bulk warehouse, regional warehouse and manufacturing. While some properties may have characteristics which fall under more than one property type, we use what we believe is the most dominant characteristic to categorize the property.

The following describes, generally, the different industrial categories:

Light industrial properties are of less than 100,000 square feet, have a ceiling height of 16-21 feet, are comprised of 5%-50% of office space, contain less than 50% of manufacturing space and have a land use ratio of 4:1. The land use ratio is the ratio of the total property area to the area occupied by the building.

R&D/flex buildings are of less than 100,000 square feet, have a ceiling height of less than 16 feet, are comprised of 50% or more of office space, contain less than 25% of manufacturing space and have a land use ratio of 4:1.

Bulk warehouse buildings are of more than 100,000 square feet, have a ceiling height of at least 22 feet, are comprised of 5%-15% of office space, contain less than 25% of manufacturing space and have a land use ratio of 2:1.

Regional warehouses are of less than 100,000 square feet, have a ceiling height of at least 22 feet, are comprised of 5%-15% of office space, contain less than 25% of manufacturing space and have a land use ratio of 2:1.

Manufacturing properties are a diverse category of buildings that have a ceiling height of 10-18 feet, are comprised of 5%-15% of office space, contain at least 50% of manufacturing space and have a land use ratio of 4:1.

Each of the properties is wholly owned by us or our consolidated subsidiaries. The following tables summarize certain information