DCT Industrial Trust Inc.
Form 10-K
March 02, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark one)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

Commission File Number 001-33201

DCT INDUSTRIAL TRUST INC.

(Exact name of registrant as specified in its charter)

Maryland	**82-0538520**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
518 17th Street, Suite 800 Denver, Colorado	**80202**
(Address of principal executive offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: **(303) 597-2400**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**

Common Stock	New York Stock Exchange

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 by Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 [ ]

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. [ ]

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 [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (do not check if smaller reporting company)	Smaller reporting company [ ]

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

As of June 30, 2008, the aggregate market value of the 171.9 million shares of voting and non-voting common stock held by non-affiliates of the registrant was $1.4 billion based on the closing sale price of $8.28 as reported on the New York Stock Exchange on June 30, 2008. (For this computation, the registrant has excluded the market value of all shares of Common Stock reported as beneficially owned by executive officers and directors of the registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the registrant.) As of February 17, 2009 there were 176,094,722 shares of Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement to be issued in conjunction with the registrant s annual meeting of stockholders to be held May 5, 2009 are incorporated by reference into Part III of this Annual Report.

Table of Contents

DCT INDUSTRIAL TRUST INC.

TABLE OF CONTENTS

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2008

		Page
	PART I	
Item 1.	Business	2
Item 1A.	Risk Factors	6
Item 1B.	Unresolved Staff Comments	27
Item 2.	Properties	28
Item 3.	Legal Proceedings	32
Item 4.	Submission of Matters to a Vote of Security Holders	32
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6.	Selected Financial Data	36
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 7A.	Quantitative and Qualitative Disclosure about Market Risk	64
Item 8.	Financial Statements and Supplementary Data	65
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	65
Item 9A.	Controls and Procedures	65
Item 9B.	Other Information	67
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	68
Item 11.	Executive Compensation	68
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	68
Item 13.	Certain Relationships and Related Transactions, and Director Independence	68
Item 14.	Principal Accountant Fees and Services	68
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	69

Table of Contents

FORWARD-LOOKING STATEMENTS

We make statements in this Annual Report on Form 10-K (Annual Report) that are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are usually identified by the use of words such as anticipates, believes, estimates, expects, intends, n plans, projects, seeks, should, will, and variations of such words or similar expressions. We intend these 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. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation:

- national, international, regional and local economic conditions, including, in particular, the current economic slow-down in the U.S. and internationally;
- the general level of interest rates and the availability of debt financing, particularly in light of the recent disruption in the credit markets;
- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets, particularly in light of the current economic slow-down in the U.S. and internationally;
- decreased rental rates or increasing vacancy rates;
- defaults on or non-renewal of leases by tenants;
- acquisition and development risks, including failure of such acquisitions and development projects to perform in accordance with projections;
- the timing of acquisitions and dispositions;
- natural disasters such as fires, hurricanes and earthquakes;
- energy costs;
- the terms of governmental regulations that affect us and interpretations of those regulations, including changes in real estate and zoning laws and increases in real property tax rates;

- financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal, and interest and other commitments;
- lack of or insufficient amounts of insurance;
- litigation, including costs associated with prosecuting or defending claims and any adverse outcomes;
- the consequences of future terrorist attacks;
- possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us; and
- other risks and uncertainties detailed in the section entitled Risk Factors

In addition, our current and continuing qualification as a real estate investment trust, or REIT, involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, or the Code, and depends on our ability to meet the various requirements imposed by the Code through actual operating results, distribution levels and diversity of stock ownership. We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. The reader should carefully review our financial statements and the notes thereto, as well as the section entitled Risk Factors in this Annual Report.

PART I

ITEM 1. BUSINESS

The Company

DCT Industrial Trust Inc. is a leading industrial real estate company that owns, operates and develops high-quality bulk distribution and light industrial properties in high-volume distribution markets in the U.S. and Mexico. The Company owns or manages approximately 75.9 million square feet of assets leased to approximately 850 customers, including 14.6 million square feet managed on behalf of three institutional joint venture partners, and has 7.7 million square feet under development. We were formed as a Maryland corporation in April 2002 and have elected to be treated as a real estate investment trust (REIT) for United States (U.S.) federal income tax purposes commencing with our taxable year ended December 31, 2003. We are structured as an umbrella partnership REIT under which substantially all of our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP (our operating partnership), a Delaware limited partnership, for which DCT Industrial Trust Inc. is the sole general partner. As used herein, DCT Industrial Trust, DCT, the Company, we, our and us refer to DCT Industrial Trust Inc. and its consolidated subsidiaries and partnerships except wher context otherwise requires.

Available Information

Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports that we file with the Securities and Exchange Commission are available free of charge as soon as reasonably practicable through our website at www.dctindustrial.com. The information contained on our website is not incorporated into this Annual Report. Our Common Stock is listed on the New York Stock Exchange under the symbol DCT.

Governance

On May 29, 2008, Philip L. Hawkins, our Chief Executive officer, submitted to the New York Stock Exchange the annual CEO Certification required by Section 303A of the Corporate Governance Rules of the NYSE certifying that he was not aware of any violation by us of NYSE corporate governance listing standards.

Business Overview

Our portfolio primarily consists of high-quality, generic bulk distribution warehouses and light industrial properties. The properties we target for acquisition or development are generally characterized by convenient access to major transportation arteries, proximity to densely populated markets and quality design standards that allow for reconfiguration of space. In the future, we intend to continue to focus on properties that exhibit these characteristics in U.S. markets as well as in Mexico, where we believe we can achieve favorable returns and leverage our expertise. We seek long-term earnings growth primarily through increasing rents and operating income at existing properties, acquiring and developing high-quality properties in major distribution markets and increasing fee revenues from our institutional capital management program. In addition, we may recycle our capital by selling assets, contributing assets to joint ventures, funds or other commingled investment vehicles with institutional partners, and reinvesting the capital in target markets.

As of December 31, 2008, we owned, managed or had under development 450 industrial real estate properties comprised of approximately 75.9 million square feet. Our portfolio of consolidated operating properties included 373 industrial real estate buildings, comprised of 52.1 million square feet, which consisted of 218 bulk distribution properties, 113 light industrial properties and 42 service center properties. Our portfolio of 373 consolidated operating properties was 93.2% occupied as of December 31, 2008. As of December 31, 2008, we also consolidated 12 development properties and six redevelopment properties, comprised of 2.9 million square feet and 0.9 million square feet, respectively. In addition, as of December 31, 2008, we had ownership interests

ranging from approximately 4% to 20% in unconsolidated institutional joint ventures, or funds, that owned 45 properties comprised of approximately 14.1 million square feet, and investments in three unconsolidated operating properties and 10 unconsolidated development joint venture properties. We managed one property where we had no ownership interest.

During the year ended December 31, 2008, we acquired three operating properties located in two markets in the United States and one in Mexico, comprised of approximately 0.4 million square feet for a total cost of approximately $23.8 million, which includes acquisition costs. We also acquired four shell-complete development properties located in Monterrey, Mexico, comprised of approximately 0.7 million square feet for a total cost of approximately $28.1 million, which includes acquisition costs. One of these buildings was sold in late 2008 and the remaining three properties were 100% leased as of December 31, 2008. Additionally, we completed the expansion of one development property in Monterrey Mexico, comprised of 83,000 square feet for a total cost of approximately $3.9 million.

During the year ended December 31, 2008, we disposed of 16 operating properties comprised of approximately 2.6 million square feet to unrelated third parties for gross proceeds of approximately $143.3 million, which resulted in an aggregate gain of approximately $21.5 million. Additionally, we contributed approximately 47 acres of land in Atlanta to the IDI/DCT Buford, LLC joint venture.

Including holdings in our consolidated and unconsolidated joint ventures, we had 11 development projects for 17 buildings in nine markets comprised of approximately 5.3 million square feet that were shell-complete and in lease-up phase as of December 31, 2008, with approximately 0.9 million square feet leased. We had eight buildings under construction, including three properties in Mexico related to forward purchase commitments, comprised of approximately 2.4 million square feet. In addition, including our joint ventures, we have approximately 424 acres of land that we believe can support the development of approximately seven million square feet and have options to control approximately 4,000 additional acres. The largest component of this land includes the master development rights held by our unconsolidated joint venture, referred to as the SCLA joint venture, for approximately 4,350 acres of land, that are entitled for industrial development, surrounding the Southern California Logistics Airport (SCLA) located in the Inland Empire submarket of Southern California. Phase I of this project, representing approximately 356 acres acquired in 2006, is expected to support approximately 6.3 million square feet of development. In early 2008, the SCLA joint venture began construction on one building comprised of approximately 1.0 million square feet. Additionally, three buildings comprised of 0.5 million square feet were completed during 2008. As of December 31, 2008, 0.1 million square feet of these buildings had been leased. Through various master development agreements, the joint venture has exclusive rights to develop this project through 2019.

We have a stable, broadly diversified tenant base. As of December 31, 2008, our consolidated and unconsolidated operating properties had leases with approximately 850 customers with no single customer accounting for more than 2.7% of the total annualized base rents for these properties. Our 10 largest customers occupy 16.7% of the leased consolidated and unconsolidated operating properties based on occupied square feet and account for 13.8% of the annualized base rent for these properties. We intend to maintain a well-diversified mix of tenants to limit our exposure to any single tenant or industry. We believe that our broad national presence in the top U.S. distribution markets provides geographic diversity and is attractive to users of distribution space which allows us to build strong relationships with our tenants. Furthermore, we are actively engaged in meeting our tenants expansion, consolidation and relocation requirements.

Our primary business objectives are to maximize long-term growth in earnings and Funds From Operations, or FFO (see definition in Selected Financial Data), and to maximize total return to our stockholders.

Our principal executive office is located at 518 Seventeenth Street, Suite 800, Denver, Colorado 80202; our telephone number is (303) 597-2400. We also maintain regional offices in Atlanta, Georgia; Moonachie, New Jersey and Dallas, Texas. Our website address is www.dctindustrial.com.

Table of Contents

Business Strategy

Our primary business objectives are to maximize long-term growth in earnings and FFO, and to maximize total return to our stockholders. The strategies we intend to execute to achieve these objectives include:

Maximizing Cash Flows From Existing Properties. We intend to maximize the cash flows from our existing properties by increasing rental revenues, controlling operating expenses and physically maintaining the quality of our properties. Operating results for the year ended December 31, 2008, included year end occupancy of 93.2%, rent growth of 10.5% on signed leases and tenant retention of 76.3% related to expiring leases. Further, cash provided by operating activities increased to $128.3 million in 2008 from $116.9 million in 2007. Renewing tenants, leasing space and effectively managing expenses are critical in the current market environment and are the day to day focus of our operations team. Due to softening market demand, we have increased our leasing team in the field to make sure we are responding to each and every opportunity quickly and successfully while cultivating deeper tenant relationships.

Managing Our Development Pipeline. We believe that extensive relationships with industrial tenants and control of an inventory of developable land primary in the Inland Empire will allow us to create value over time by selling land, constructing buildings for tenants or developing buildings in high-volume distribution markets. In anticipation of the deteriorating market for industrial space, we ceased entering into new development commitments early in 2008, but have remained focused on leasing the existing pipeline of properties under development. During the year, we were successful in completing the lease-up or sale of six development properties, representing 1.3 million square feet.

We continued to make progress at SCLA, our development joint venture located in the Inland Empire market of Southern California where our joint venture controls the master development rights to more than 4,000 acres of land. We have four buildings totaling 1.5 million square feet under development or in the lease-up phase, with leasing on pace with our initial projections. As of December 31, 2008, 0.1 million square feet of these buildings had been leased.

Recycling Capital. We intend to selectively dispose of assets in order to maximize total return to our stockholders by redeploying proceeds from asset sales into new acquisition and development opportunities. Important to managing our balance sheet as well as increasing our overall return on assets is the on-going effort to sell non-strategic assets for redeployment into new, higher growth opportunities. During 2008, we sold $143 million of assets in 10 transactions for a gain of $21.5 million. Given our solid balance sheet, strong team of real estate professionals and excellent relationships with investors and brokers, we believe we are well positioned to identify and take advantage of those opportunities. However, we will continue to exercise patience and discipline as we evaluate potential acquisitions that we believe will generate attractive returns for our stockholders.

Expanding Our Institutional Capital Management Platform. Co-investing with institutional capital enables the Company to increase our return on invested capital through fees earned, augment our acquisition activity, deepen our market presence and customer relationships, and increase our access to capital for continued growth. DCT Industrial s institutional capital management platform consists of five joint ventures with three institutions. At year end, assets under management totaled $772 million, representing an increase of more than $85 million from the end of 2007. We will continue to work closely with our existing partners to maximize the value of our joint venture properties, as well as look for new opportunities to deploy capital at attractive returns.

Creating Value in Mexico. We own 1.1 million square feet of industrial properties in Mexico, which were 91.2% leased at year end, and have an additional three properties totaling 354,000 square feet under development. As with the U.S., the Mexican economy and its real estate markets noticeably softened in 2008 after enjoying a very long run of success. In response, we have put new capital deployment on hold and have devoted all of our efforts on leasing existing space to increase cash flow and value. While we do not anticipate making any further investments in the near-term, we continue to

monitor the markets and stay in close touch with our network of market contacts, as attractively priced opportunities are likely to present themselves in the future as a result of the stress on current land and building owners.

Our Competitive Strengths

We believe that we distinguish ourselves from other owners, operators, acquirers and developers of industrial properties. Although our business strategy reflects current market conditions, we believe our long-term success is supported through the following competitive strengths:

High-Quality Industrial Property Portfolio. Our portfolio of industrial properties primarily consists of high-quality bulk distribution facilities specifically designed to meet the needs of distribution and supply companies. As of December 31, 2008, approximately 89% of our consolidated operating portfolio based on square footage was comprised of bulk distribution properties while approximately 9% of our portfolio was comprised of light industrial properties. The majority of our properties are specifically designed for use by major distribution and third-party logistics tenants and are readily divisible to meet re-tenanting opportunities. We believe that our concentration of high-quality bulk distribution properties provides us with a competitive advantage in attracting and retaining distribution users and tenants across the markets in which we operate. With respect to our bulk distribution buildings that are 200,000 square feet or greater, 82% have average ceiling clear heights in excess of 24 feet, truck court depths in excess of 120 feet and early suppression fast response sprinkler systems.

Experienced and Committed Management Team. Our executive management team collectively has an average of nearly 20 years commercial real estate experience and an average of over 10 years focused on the industrial real estate sector. Additionally, our executive management team has extensive public company operating experience with all of our senior executives having held senior positions at publicly-traded REITs for an average of over 10 years.

Proven Acquisition Capabilities. Beginning with our first acquisition in June 2003, we have completed approximately $3.4 billion in industrial real estate acquisitions as of December 31, 2008. Excluding our three major portfolio acquisitions that were each in excess of $200 million, our average acquisition transaction cost was approximately $21.2 million. This demonstrates our ability to access a steady pipeline of smaller acquisitions. Our acquisition capability is driven by our extensive network of industry relationships within the brokerage, development and investor community.

Access to Institutional Co-Investment Capital. DCT has established five joint ventures with three institutional capital partners and our senior management team has broad long-term relationships within the institutional investor community that provide access to capital for both traditional joint ventures and funds or other commingled investment vehicles. These institutions include domestic pension plans, insurance companies, private trusts and international investors. We believe these relationships allow us to identify sources of institutional demand and appropriately match institutional capital with investment opportunities in our target markets to maximize returns for our stockholders.

Strong Industry Relationships. We believe that our extensive network of industry relationships with the brokerage, development and investor communities will allow us to execute successfully our acquisition and development growth strategies and our institutional capital management strategy. These relationships augment our ability to source acquisitions in off-market transactions outside of competitive marketing processes, capitalize on development opportunities and capture repeat business and transaction activity. Our strong relationships with the tenant and leasing brokerage communities aid in attracting and retaining tenants.

Capital Structure. Our capital structure and business plan provides us with sufficient financial capacity to fund future growth. As of December 31, 2008 we had $284.8 million available under our $300.0 million senior unsecured revolving credit facility and 230 of our operating properties with a gross book value of $1.6 billion were unencumbered.

Table of Contents

Operating Segments

We consider each operating property to be an individual operating segment that has similar economic characteristics with all of our other operating properties. Our operating segments are aggregated into reportable segments based upon the property type: bulk distribution; and light industrial and other. See additional information in Item 2. Properties, in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 16 to our Consolidated Financial Statements.

Competition

We believe the current market for industrial real estate acquisitions to be extremely competitive. We compete for real property investments with pension funds and their advisors, bank and insurance company investment accounts, other real estate investment companies, real estate limited partnerships, individuals and other entities engaged in real estate investment activities, some of which have greater financial resources than we do. In addition, we believe the leasing of real estate to be highly competitive. We experience competition for customers from owners and managers of competing properties. As a result, we may have to provide free rental periods, incur charges for tenant improvements or offer other inducements, all of which may have an adverse impact on our results of operations.

Employees

As of December 31, 2008, we had 81 full-time employees.

ITEM 1A. RISK FACTORS
RISKS RELATED TO RECENT ECONOMIC CONDITIONS

Adverse economic conditions will negatively affect our returns and profitability.

Our operating results may be affected by market and economic challenges, including the current global economic credit environment, which may result from a continued or exacerbated general economic slow down experienced by the nation as a whole or by the local economics where our properties may be located, or by the real estate industry, including the following:

- poor economic conditions may result in tenant defaults under leases;
- re-leasing may require concessions or reduced rental rates under the new leases due to reduced demand;
- adverse capital and credit market conditions may restrict our development and redevelopment activities; and
- constricted access to credit may result in tenant defaults, non-renewals under leases or inability of potential buyers to acquire our properties held for sale, including properties held through joint ventures.

Also, to the extent we purchase real estate in an unstable market, we are subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future that it attracts at the time of our purchases, or the number of companies seeking to acquire properties decreases, the value of our investments may not appreciate or may decrease significantly below the amount we pay for these investments. The length and severity of any economic slow down or downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic slow down or downturn is prolonged or becomes more severe.

Table of Contents

Dislocations in the credit markets and real estate markets could have a material adverse effect on our results of operations, financial condition and ability to pay distributions to you.

Domestic and international financial markets currently are experiencing significant dislocations which have been brought about in large part by failures in the U.S. banking system. These dislocations have severely impacted the availability of credit and have contributed to rising costs associated with obtaining credit. If debt financing is not available on terms and conditions we find acceptable, we may not be able to obtain financing for investments. If this dislocation in the credit markets persists, our ability to borrow monies to finance the purchase of, or other activities related to, real estate assets will be negatively impacted. If we are unable to borrow monies on terms and conditions that we find acceptable, we likely will have to reduce the number of properties we can purchase, and the return on the properties we do purchase may be lower. If interest rates are higher when the properties are refinanced, we may not be able to finance the properties and our income could be reduced. In addition, if we pay fees to lock-in a favorable interest rate, falling interest rates or other factors could require us to forfeit these fees. Also, if the value of our properties decline we may we may be unable to refinance all of our debt as it matures. All of these events would have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

The failure of any banking institution in which we deposit our funds, any lender under any of our lines of credit or any counterparty to our derivative financial instruments could have a material adverse effect on our results of operations, financial condition and ability to pay distributions to you.

Currently, the Federal Deposit Insurance Corporation, or FDIC, generally, only insures amounts up to $250,000 per depositor per insured bank, which amount is scheduled to be reduced to $100,000 after December 31, 2009. The FDIC does provide full deposit insurance coverage for non-interest bearing transaction accounts with participating institutions, regardless of dollar amount, through December 31, 2009, but we generally do not hold our cash and cash equivalents in such accounts. We currently have and expect to continue to have cash and cash equivalents deposited in certain banking institutions in excess of federally insured levels. Currently, our cash and cash equivalents are deposited primarily with US Bank and AAA-rated money market accounts, and we may deposit funds in other banking institutions in the future. If any of the banking institutions in which we have deposited funds ultimately fails, we may lose the amount of our deposits over the then current FDIC insurance limit. The loss of our deposits could reduce the amount of cash we have available to distribute or invest and could result in a decline in the value of your investment.

There are currently twelve lenders under our $300.0 million line of credit. If any of the lenders under our line of credit fail, we may be unable to obtain or replace on favorable terms, or at all, the financing commitment of the failed lender. This could adversely affect our liquidity and, as a result, negatively impact our company in a number of ways. Additionally, we use various derivative financial instruments to hedge our exposure to movements in market interest rates. Our counterparties to these instruments are typically commercial or investment banks or their affiliates or the financial services subsidiaries of large insurance companies. If any of our counterparties fail or are unable to perform under these instruments, we may not realize the benefits of these instruments and the risk to us of fluctuations in future interest rates may increase. We may be unable to recover any amounts owed to us by these counterparties.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

Our investments are concentrated in the industrial real estate sector, and our business would be adversely affected by an economic downturn in that sector.

Our investments in real estate assets are primarily concentrated in the industrial real estate sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities included a more significant portion of other sectors of the real estate industry.

We depend on key personnel.

Our success depends to a significant degree upon the continued contributions of certain key personnel including, but not limited to, our management group, each of whom would be difficult to replace. If any of our key personnel were to cease employment with us, our operating results could suffer. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flows. Further, such a loss could be negatively perceived in the capital markets. We have not obtained and do not expect to obtain key man life insurance on any of our key personnel.

We also believe that, as we expand, our future success depends, in large part, upon our ability to hire and retain highly skilled managerial, investment, financing, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure our stockholders that we will be successful in attracting and retaining such skilled personnel.

Our operating results and financial condition could be adversely affected if we do not continue to have access to capital on favorable terms.

As a REIT, we must meet certain annual distribution requirements. Consequently, we are largely dependent on external capital to fund our development and acquisition activities. Further, in order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. Additionally, our ability to access capital is dependent upon a number of factors, including general market conditions and competition from other real estate companies. To the extent that capital is not available to acquire or develop properties, profits may not be realized or their realization may be delayed, which could result in an earnings stream that is less predictable than some of our competitors and result in us not meeting our projected earnings and distributable cash flow levels in a particular reporting period. Failure to meet our projected earnings and distributable cash flow levels in a particular reporting period could have an adverse effect on our financial condition and on the market price of our common stock.

Our long-term growth will partially depend upon future acquisitions of properties, and we may be unable to consummate acquisitions on advantageous terms or acquisitions may not perform as we expect.

We acquire and intend to continue to acquire primarily high-quality generic bulk distribution warehouses and light industrial properties. The acquisition of properties entails various risks, including the risks that our investments may not perform as we expect, that we may be unable to quickly and efficiently integrate our new acquisitions into our existing operations 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 institutional investment funds, and these competitors may have greater financial resources than us and a greater ability to borrow funds to acquire properties. This competition increases as investments in real estate become increasingly 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 significantly elevated. In addition, we expect to finance future acquisitions through a combination of borrowings under our senior unsecured credit facility, proceeds from equity or debt offerings by us or our operating partnership or its subsidiaries and proceeds from property contributions and divestitures which may not be available and which could adversely affect our cash flows. Any of the above risks could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock.

Table of Contents

We may be unable to source off-market deal flow in the future.

A key component of our growth strategy is to continue to acquire additional industrial real estate assets. Properties that are acquired off-market are typically more attractive to us as a purchaser because of the absence of a formal sales process, which could lead to higher prices. If we cannot obtain off-market deal flow in the future, our ability to locate and acquire additional properties at attractive prices could be adversely affected.

Our real estate development strategies may not be successful.

We are involved in the construction and expansion of distribution facilities and we intend to continue to pursue development and renovation activities as opportunities arise. In addition, we have entered into joint ventures to develop, or will self-develop, additional warehouse/distribution buildings on land we already own or control, and we have rights under master development agreements to acquire additional acres of land for future development activities. We will be subject to risks associated with our development and renovation activities that could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock, including, but not limited to:

- the risk that development projects in which we have invested may be abandoned and the related investment will be impaired;
- the risk that 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 risk that we may not be able to obtain additional land on which to develop;
- the risk that we may not be able to obtain financing for development projects on favorable terms;
- the risk that construction costs of a project may exceed the original estimates or that construction may not be concluded on schedule, making the project less profitable than originally estimated or not profitable at all (including the possibility of contract default, the effects of local weather conditions, the possibility of local or national strikes and the possibility of shortages in materials, building supplies or energy and fuel for equipment);
- the risk that, upon completion of construction, we may not be able to obtain, or obtain on advantageous terms, permanent financing for activities that we have financed through construction loans; and
- the risk that occupancy levels and the rents that can be charged for a completed project will not be met, making the project unprofitable.

Our institutional capital management strategy of contributing properties to joint ventures we manage may not allow us to expand our business and operations as quickly or as profitably as we desire.

In general, our ability to contribute properties to joint ventures that are part of our institutional capital management program on advantageous terms will be dependent upon competition from other managers of similar joint ventures, current capital market conditions, including the yield expectations for industrial properties, and other factors beyond our control. Our ability to develop and timely lease properties will impact our ability to contribute these properties. Continued access to private and public debt and equity capital by these joint ventures is necessary in order for us to pursue our strategy of contributing properties to the joint ventures. Should we not have sufficient properties available that meet the investment criteria of current or future joint ventures, or should the joint ventures have limited or no access to capital on favorable terms, then these contributions could be delayed resulting in adverse effects on our liquidity and on our ability to meet projected earnings levels in a particular reporting period. Failure to meet our projected earnings levels in a particular reporting period could have an adverse effect on our

results of operations, distributable cash flows and on the value of our common stock. Further, our inability to redeploy the proceeds from our divestitures in accordance with our investment strategy could have an adverse effect on our results of operations, distributable cash flows, and our ability to meet our debt obligations in a timely manner and the value of our common stock in subsequent periods.

Actions of our joint venture partners could negatively impact our performance.

Our organizational documents do not limit the amount of available funds that we may invest in partnerships, limited liability companies or joint ventures, and we intend to continue to develop and acquire properties through joint ventures, limited liability companies and partnerships with other persons or entities when warranted by the circumstances. Such partners may share certain approval rights over major decisions. Such investments may involve risks not otherwise present with other methods of investment in real estate, including, but not limited to:

- that our co-member, co-venturer or partner in an investment might become bankrupt, which would mean that we and any other remaining general partners, members or co-venturers would generally remain liable for the partnership s, limited liability company s or joint venture s liabilities;

- that such co-member, co-venturer or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals;

- that such co-member, co-venturer or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our current policy with respect to maintaining our qualification as a REIT;

- that, if our partners fail to fund their share of any required capital contributions, we may be required to contribute such capital;

- that joint venture, limited liability company and partnership agreements often restrict the transfer of a co-venturer s, member s or partner s interest or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;

- that our relationships with our partners, co-members or co-venturers are contractual in nature and may be terminated or dissolved under the terms of the agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at an above-market price to continue ownership;

- that disputes between us and our partners, co-members or co-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 result in subjecting the properties owned by the applicable partnership, limited liability company or joint venture to additional risk; and

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

We generally seek to maintain sufficient control of our partnerships, limited liability companies and joint ventures to permit us to achieve our business objectives; however, we may not be able to do so, and the occurrence of one or more of the events described above could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock.

If we invest in a limited partnership as a general partner we could be responsible for all liabilities of such partnership.

In some joint ventures or other investments we may make, if the entity in which we invest is a limited partnership, we may acquire all or a portion of our interest in such partnership as a general partner. As a general partner, we could be liable for all the liabilities of such partnership. Additionally, we may be required to take our interests in other investments as a non-managing general partner. Consequently, we would be potentially liable for all such liabilities without having the same rights of management or control over the operation of the partnership as the managing general partner or partners may have. Therefore, we may be held responsible for all of the liabilities of an entity in which we do not have full management rights or control, and our liability may far exceed the amount or value of the investment we initially made or then had in the partnership.

Table of Contents

Investment in us may be subject to additional risks relating to our international investments.

We have expanded our operations into markets in Mexico and may expand our operations into additional selected international markets in the future. Our foreign operations could be affected by factors peculiar to the laws and business practices of the jurisdictions in which the properties are located. These laws may expose us to risks that are different from and in addition to those commonly found in the United States. Foreign operations could be subject to the following risks:

- changing governmental rules and policies, including changes in land use and zoning laws;
- enactment of laws relating to the foreign ownership of real property or mortgages and laws restricting the ability of foreign persons or companies to remove profits earned from activities within the country to the person s or company s country of origin;
- variations in currency exchange rates;
- adverse market conditions caused by terrorism, civil unrest and changes in national or local governmental or economic conditions;
- the willingness of domestic or foreign lenders to make mortgage loans in certain countries and changes in the availability, cost and terms of mortgage funds resulting from varying national economic policies;
- the imposition of unique tax structures and changes in real estate and other tax rates and other operating expenses in particular countries;
- general political and economic instability;
- our limited experience and expertise in foreign countries relative to our experience and expertise in the United States; and
- more stringent environmental laws or changes in such laws, or environmental consequences of less stringent environmental management practices in foreign countries relative to the United States.

The availability and timing of cash distributions is uncertain.

We expect to continue to pay quarterly distributions to our stockholders. However, we bear all expenses incurred by our operations, and our funds generated by operations, after deducting these expenses, may not be sufficient to cover desired levels of distributions to our stockholders. In addition, our board of directors, in its discretion, may retain any portion of such cash for working capital. We cannot assure our stockholders that sufficient funds will be available to pay distributions.

We may have difficulty funding our distributions with our available cash flows.

As a growing company, to date we have funded our quarterly distributions to investors with available cash flows and, to a lesser extent, with borrowings under our senior credit facility and other borrowings. Our corporate strategy is to fund the payment of quarterly distributions to our stockholders entirely from available cash flows. However, we may continue to fund our quarterly distributions to investors from a combination of available cash flows and proceeds from borrowings. In the event we are unable to consistently fund future quarterly distributions to investors entirely from available cash flows, net of recurring capital expenditures, the value of our shares may be negatively impacted.

Adverse economic and geopolitical conditions could negatively affect our returns and profitability.

Among others, the following market and economic challenges may adversely affect our operating results:

- poor economic times may result in tenant defaults under our leases and reduced demand for industrial space;
- overbuilding may increase vacancies; and

Table of Contents

maintaining occupancy levels may require increased concessions, tenant improvement expenditures or reduced rental rates.
Our operations could be negatively affected to the extent that an economic downturn is prolonged or becomes more severe.

Events or occurrences that affect areas in which our properties are geographically concentrated may impact financial results.

In addition to general, regional, national and international economic conditions, our operating performance is impacted by the economic conditions of the specific markets in which we have concentrations of properties. We have significant holdings in the following markets of our consolidated portfolio: Atlanta, Cincinnati, Columbus, Dallas and Memphis. Our operating performance could be adversely affected if conditions become less favorable in any of the markets in which we have a concentration of properties.

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our stock price, or otherwise materially adversely affect our business, reputation, results of operations, financial condition or liquidity.

RISKS RELATED TO CONFLICTS OF INTEREST

We may compete with our affiliates for properties.

Although we became self-advised in connection with the Internalization, we are still subject to certain conflicts of interest. Certain of our affiliates could seek to acquire properties that could satisfy our acquisition criteria. While certain of our current and former affiliates have agreed not to engage in activities within North America relating to the ownership, acquisition, development or management of industrial properties until October 10, 2009, such agreements are subject to certain exceptions. As such, we may encounter situations where we would be bidding against an affiliate or teaming with an affiliate for a joint bid.

We may invest in, or co-invest with, our affiliates.

We may invest in, or co-invest with, joint ventures or other programs sponsored by affiliates of one of our directors, James Mulvihill, including those pursuant to our joint ventures with Dividend Capital Total Realty Trust, Inc., or DCTRT. The independent directors of our investment committee must approve any such transaction and Mr. Mulvihill will abstain from voting as a director on any transactions we enter into with his affiliates. Management s recommendation to our investment committee may be affected by its relationship with the co-venturer. In addition, we may not seek to enforce the agreements relating to such transactions as vigorously as we otherwise might because of our desire to maintain our relationship with this director.

Our UPREIT structure may result in potential conflicts of interest.

As of December 31, 2008, we owned 84% of the units of limited partnership interest in our operating partnership, or OP Units, DCAG owned 5% of the OP Units (and certain of our officers and directors, through their membership interests in and/or rights to receive a portion of the net cash flows, or cash flow interests, of DCAG, indirectly beneficially owned 2% of the OP Units) and certain unaffiliated limited partners owned the remaining 11% of the OP Units. Persons holding OP Units in our operating partnership have the right to vote on certain

amendments to the limited partnership agreement of our operating partnership, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our stockholders. Furthermore, circumstances may arise in the future when the interest of limited partners in our operating partnership may conflict with the interests of our stockholders. For example, the timing and terms of dispositions of properties held by our operating partnership may result in tax consequences to certain limited partners and not to our stockholders.

GENERAL REAL ESTATE RISKS

Our performance and value are subject to general economic conditions and risks associated with our real estate assets.

The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to pay distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) that generally do not decline when circumstances reduce the income from the property. Income from and the value of our properties may be adversely affected by:

- changes in general or local economic climate;
- the attractiveness of our properties to potential tenants;
- changes in supply of or demand for similar or competing properties in an area;
- bankruptcies, financial difficulties or lease defaults by our tenants;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;
- changes in operating costs and expenses and our ability to control rents;
- changes in or increased costs of compliance with governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws, and our potential liability thereunder;
- our ability to provide adequate maintenance and insurance;
- changes in the cost or availability of insurance, including coverage for mold or asbestos;
- unanticipated changes in costs associated with known adverse environmental conditions or retained liabilities for such conditions;
- periods of high interest rates and tight money supply;

- tenant turnover;
- general overbuilding or excess supply in the market area; and
- disruptions in the global supply chain caused by political, regulatory or other factors including terrorism.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or public perception that any of these events may occur, would result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Future terrorist attacks may result in declining economic activity, which could reduce the demand for, and the value of, our properties. To the extent that future attacks impact our tenants, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

For these and other reasons, we cannot assure our stockholders that we will be profitable or that we will realize growth in the value of our real estate properties.

Table of Contents

Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties.

We compete with other developers, owners and operators of real estate, some of which own properties similar to ours in the same markets and submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants leases expire. As a result, our financial condition, cash flows, cash available for distribution, trading price of our common stock and ability to satisfy our debt service obligations could be materially adversely affected.

We are dependent on tenants for our revenues.

Our operating results and distributable cash flows would be adversely affected if a significant number of our tenants were unable to meet their lease obligations. In addition, certain of our properties are occupied by a single tenant. As a result, the success of those properties will depend on the financial stability of a single tenant. Lease payment defaults by tenants could cause us to reduce the amount of distributions to stockholders. A default by a tenant on its lease payments could force us to find an alternative source of revenues to pay any mortgage loan on the property. In the event of a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs, including litigation and related expenses, in protecting our investment and re-leasing our property. If a lease is terminated, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss.

Our ability to renew leases or re-lease space on favorable terms as leases expire significantly affects our business.

Our results of operations, distributable cash flows and the value of our common stock would be adversely affected if we are unable to lease, on economically favorable terms, a significant amount of space in our operating properties. The number of vacant or partially vacant industrial properties in a market or submarket could adversely affect both our ability to re-lease the space and the rental rates that can be obtained.

A property that incurs a vacancy could be difficult to sell or re-lease.

A property may incur a vacancy either by the continued default of a tenant under its lease or the expiration of one of our leases. In addition, certain of the properties we acquire may have some level of vacancy at the time of closing. Certain of our properties may be specifically suited to the particular needs of a tenant. We may have difficulty obtaining a new tenant for any vacant space we have in our properties. If the vacancy continues for a long period of time, we may suffer reduced revenues resulting in less cash available to be distributed to stockholders. In addition, the resale value of a property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We may not have funding for future tenant improvements.

When a tenant at one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract one or more new tenants, we will be required to expend funds to construct new tenant improvements in the vacated space. Although we intend to manage our cash position or financing availability to pay for any improvements required for re-leasing, we cannot assure our stockholders that we will have adequate sources of funding available to us for such purposes in the future.

If our tenants are highly leveraged, they may have a higher possibility of filing for bankruptcy or insolvency.

Of our tenants that experience downturns in their operating results due to adverse changes to their business or economic conditions, those that are highly leveraged may have a higher possibility of filing for bankruptcy or insolvency. In bankruptcy or insolvency, a tenant may have the option of vacating a property instead of paying rent. Until such a property is released from bankruptcy, our revenues would be reduced and could cause us to reduce distributions to stockholders. We may have highly leveraged tenants in the future.

Table of Contents

The fact that real estate investments are not as liquid as other types of assets may reduce economic returns to investors.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. In addition, we intend to comply with the safe harbor rules relating to the number of properties that can be disposed of in a year, the tax bases and the costs of improvements made to these properties, and 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 or contribute assets to property funds or other entities in which we have an ownership interest may be restricted. This lack of liquidity may limit our ability to vary our portfolio promptly in response to changes in economic or other conditions and, as a result, could adversely affect our financial condition, results of operations, cash flows and our ability to pay distributions on, and the market price of, our common stock.

Delays in acquisition and development of properties may have adverse effects.

Delays we encounter in the selection, acquisition and development of properties could adversely affect our returns. Where properties are acquired prior to the start of construction, it will typically take 12 to 18 months to complete construction and lease available space. Therefore, there could be delays in the payment of cash distributions attributable to those particular properties.

Development and construction of properties may incur delays and increased costs and risks.

In connection with our development strategy, we may acquire raw land upon which we will develop and construct improvements at a fixed contract price. In any such projects we will be subject to risks relating to the builder s ability to control construction costs or to build in conformity with plans, specifications and timetables. The builder s failure to perform may result in legal action by us to rescind the purchase or construction contract or to enforce the builder s obligations. Performance may also be affected or delayed by conditions beyond the builder s control. Delays in completion of construction could also give tenants the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to such builders prior to completion of construction. Each of these factors could result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects if they are not fully leased prior to the commencement of construction. Furthermore, the price we agree to for the land will be based on projections of rental income and expenses and estimates of construction costs as well as the fair market value of the property upon completion of construction. If our projections are inaccurate, we may pay too much for the land and fail to achieve our forecast of returns due to the factors discussed above.

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

We have acquired, and may continue to acquire, properties in markets that are new to us. When we acquire properties located in these markets, 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.

Uninsured losses relating to real property may adversely affect our returns.

We attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, there are certain losses, including losses from floods, earthquakes, 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 economically

feasible or prudent to do so. In addition, changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured loss, and we could experience a significant loss of capital invested and potential revenues in these properties and could potentially remain obligated under any recourse debt associated with the property. Moreover, as the general partner of our operating partnership, we generally will be liable for all of our operating partnership s unsatisfied recourse obligations, including any obligations incurred by our operating partnership as the general partner of joint ventures. Any such losses could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure that any such sources of funding will be available to us for such purposes in the future.

A number of our consolidated operating properties are located in areas that are known to be subject to earthquake activity. Properties located in active seismic areas include properties in Northern California, Southern California, Memphis, Seattle and Mexico. We carry replacement-cost earthquake insurance on all of our properties located in areas historically subject to seismic activity, subject to coverage limitations and deductibles that we believe are commercially reasonable. We evaluate our earthquake insurance coverage annually in light of current industry practice through an analysis prepared by outside consultants.

A number of our properties are located in Miami and Orlando, which are areas that are known to be subject to hurricane and/or flood risk. We carry replacement-cost hurricane and flood hazard insurance on all of our properties located in areas historically subject to such activity, subject to coverage limitations and deductibles that we believe are commercially reasonable. We evaluate our insurance coverage annually in light of current industry practice through an analysis prepared by outside consultants.

Contingent or unknown liabilities could adversely affect our financial condition.

We have acquired, and may in the future acquire, properties, or may have previously owned properties, subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of any of these entities or properties, then we might have to pay substantial sums to settle it, which could adversely affect our cash flows. Unknown liabilities with respect to entities or properties acquired might include:

- liabilities for clean-up or remediation of adverse environmental conditions;
- accrued but unpaid liabilities incurred in the ordinary course of business;
- tax liabilities; and
- claims for indemnification by the general partners, officers and directors and others indemnified by the former owners of the properties.

Environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, natural resources or property damage or other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. Environmental laws also may impose restrictions on the

manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

Environmental laws in the U.S. also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos. Some of our properties may contain asbestos-containing building materials.

We invest in properties historically used for industrial, manufacturing and commercial purposes. Some of these properties contain, or may have contained, underground storage tanks for the storage of petroleum products and other hazardous or toxic substances. All of these operations create a potential for the release of petroleum products or other hazardous or toxic substances. Some of our properties are adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on or are adjacent to or near other properties upon which others, including former owners or tenants of our properties, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

We maintain a portfolio environmental insurance policy that provides coverage for potential environmental liabilities, subject to the policy s coverage conditions and limitations, for most of our properties. From time to time, we may acquire properties, or interests in properties, with known adverse environmental conditions where we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk-adjusted return. In such an instance, we underwrite the costs of environmental investigation, clean-up and monitoring into the cost. Further, in connection with property dispositions, we may agree to remain responsible for, and to bear the cost of, remediating or monitoring certain environmental conditions on the properties.

All of our properties were subject to a Phase I or similar environmental assessment by independent environmental consultants at the time of acquisition. Phase I assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. Phase I assessments generally include a historical review, a public records review, an investigation of the surveyed site and surrounding properties, and preparation and issuance of a written report, but do not include soil sampling or subsurface investigations and typically do not include an asbestos survey. While some of these assessments have led to further investigation and sampling, none of our environmental assessments of our properties have revealed an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations taken as a whole. However, we cannot give any assurance that such conditions do not exist or may not arise in the future. Material environmental conditions, liabilities or compliance concerns may arise after the environmental assessment has been completed. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of our properties will not be affected by tenants, by the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third parties unrelated to us.

Table of Contents

Costs of complying with governmental laws and regulations may adversely affect our income and the cash available for any distributions.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Tenants ability to operate and to generate income to pay their lease obligations may be affected by permitting and compliance obligations arising under such laws and regulations. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. Leasing properties to tenants that engage in industrial, manufacturing, and commercial activities will cause us to be subject to the risk of liabilities under environmental laws and regulations. In addition, the presence of hazardous or toxic substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such property as collateral for future borrowings.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our tenants operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines or damages we must pay will reduce our ability to make distributions and may reduce the value of our common stock.

In addition, changes in these laws and governmental regulations, or their interpretation by agencies or the courts, could occur.

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the Americans with Disabilities Act, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the Americans with Disabilities Act, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. While we believe that our properties are currently in material compliance with these regulatory requirements, the requirements may change or new requirements may be imposed that could require significant unanticipated expenditures by us that will affect our cash flows and results of operations.

We own several of our properties subject to ground leases that expose us to the loss of such properties upon breach or termination of the ground leases and may limit our ability to sell these properties.

We own several of our properties through leasehold interests in the land underlying the buildings and we may acquire additional buildings in the future that are subject to similar ground leases. As lessee under a ground lease, we are exposed to the possibility of losing the property upon termination, or an earlier breach by us, of the ground lease, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our common stock.

Our ground leases contain certain provisions that may limit our ability to sell certain of our properties. In order to assign or transfer our rights and obligations under certain of our ground leases, we generally must obtain the consent of the landlord which, in turn, could adversely impact the price realized from any such sale.

Table of Contents

We may be unable to sell a property if or when we decide to do so, including as a result of uncertain market conditions, which could adversely affect the return on an investment in our common stock.

We expect to hold the various real properties in which we invest until such time as we decide that a sale or other disposition is appropriate given our investment objectives. Our ability to dispose of 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. We cannot predict the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure our stockholders that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which our stockholders will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure our stockholders that we will have funds available to correct such defects or to make such improvements.

In acquiring a property, we may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These provisions would restrict our ability to sell a property.

If we sell properties and provide financing to purchasers, defaults by the purchasers would adversely affect our cash flows.

If we decide to sell any of our properties, we presently intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders and result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

We may acquire properties with lock-out provisions which may affect our ability to dispose of the properties.

We may acquire properties through contracts that could restrict our ability to dispose of the property for a period of time. These lock-out provisions could affect our ability to turn our investments into cash and could affect cash available for distributions to our stockholders. Lock-out provisions could also impair our ability to take actions during the lock-out period that would otherwise be in the best interest of our stockholders and, therefore, may have an adverse impact on the value of our common stock relative to the value that would result if the lock-out provisions did not exist.

RISKS RELATED TO OUR DEBT FINANCINGS

Our operating results and financial condition could be adversely affected if we are unable to make required payments on our debt.

Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur, and we are subject to risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

In particular, loans obtained to fund property acquisitions may be secured by first mortgages on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or

properties securing its debt. This could cause us to lose part or all of our investment, which in turn could cause the value of our common stock and distributions payable to stockholders to be reduced. Certain of our existing and future indebtedness is and may be cross-collateralized and, consequently, a default on this indebtedness could cause us to lose part or all of our investment in multiple properties.

Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

We have incurred and may continue to incur variable rate debt whereby increases in interest rates raise our interest costs, which reduces our cash flows and our ability to make distributions to our stockholders. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected, and we may lose the property securing such indebtedness. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

Covenants in our credit agreements could limit our flexibility and adversely affect our financial condition.

The terms of our senior credit facility and other indebtedness require us to comply with a number of customary financial and other covenants, such as covenants with respect to consolidated leverage, net worth and unencumbered assets. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. As of December 31, 2008, we had certain non-recourse, secured loans which are cross-collateralized by multiple properties. If we default on any of these loans we may then be required to repay such indebtedness, together with applicable prepayment charges, to avoid foreclosure on all cross-collateralized properties within the applicable pool. In addition, our senior credit facility contains certain cross-default provisions which are triggered in the event that our other material indebtedness is in default. These cross-default provisions may require us to repay or restructure the senior credit facility in addition to any mortgage or other debt that is in default. If our properties were foreclosed upon, or if we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected.

If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to make distributions.

Some of our financing arrangements require us to make a lump-sum or balloon payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the existing financing on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

High interest rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make.

If debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance such debt when the loans come due or of being unable to refinance such debt on favorable terms. If interest rates are higher when we refinance such debt, our income could be reduced. We may be unable to refinance such debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us or could result in the foreclosure of such properties. If any of these events occur, our cash flows would be reduced. This, in turn, would reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on investment in our common stock.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. These instruments involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such agreements are not legally enforceable. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income tests. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. Moreover, hedging strategies involve transaction and other costs. We cannot assure our stockholders that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses that may reduce the overall return on investment in our common stock.

RISKS RELATED TO OUR CORPORATE STRUCTURE

Our charter and Maryland law contain provisions that may delay, defer or prevent a change of control transaction.

Our charter contains a 9.8% ownership limit.

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 9.8% by value or number of shares, whichever is more restrictive, of any class or series of our outstanding shares of our capital stock. Our board of directors, in its sole discretion, may exempt, subject to the satisfaction of certain conditions, any person from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any person whose ownership, direct or indirect, in excess of 9.8% by value or number of shares of any class or series of our outstanding shares of our capital stock could jeopardize our status as a REIT. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

We could authorize and issue stock without stockholder approval.

Our board of directors could, without stockholder approval, issue authorized but unissued shares of our common stock or preferred stock and amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. In addition, our board of directors could, without stockholder approval, classify or reclassify any unissued shares of our common stock or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares. Our board of directors could establish a series of stock that could, depending on the terms of such series, delay, defer or prevent a transaction or change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Majority stockholder vote may discourage changes of control.

If declared advisable by our board of directors, our stockholders may take some actions, including approving amendments to our charter, by a vote of a majority or, in certain circumstances, two thirds of the shares outstanding and entitled to vote. If approved by the holders of the appropriate number of shares, all actions taken would be binding on all of our stockholders. Some of these provisions may discourage or make it more difficult for another party to acquire control of us or to effect a change in our operations.

Table of Contents

Provisions of Maryland law may limit the ability of a third party to acquire control of our company.

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under certain circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then prevailing market price of such shares, including:

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter would require the recommendation of our board of directors and impose special appraisal rights and special stockholder voting requirements on these combinations; and

- control share provisions that provide that control shares of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have opted out of these provisions of Maryland law with respect to any person, provided, in the case of business combinations, that the business combination is first approved by our board of directors. However, our board of directors may opt in to the business combination provisions and the control share provisions of Maryland law in the future.

Additionally, Title 8, Subtitle 3 of the Maryland General Corporation Law, or MGCL, permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not currently have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-current market price.

Our charter, our bylaws, the limited partnership agreement of our operating partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- within the limits provided in our charter, prevent the ownership, transfer and/or accumulation of shares in order to protect our status as a REIT or for any other reason deemed to be in the best interests of us and our stockholders;

- issue additional shares without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;

- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series, without obtaining stockholder approval;

- classify or reclassify any unissued shares of our common stock or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;

22

Table of Contents

- employ and compensate affiliates;
- direct our resources toward investments that do not ultimately appreciate over time;
- change creditworthiness standards with respect to third-party tenants; and
- determine that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Any of these actions could increase our operating expenses, impact our ability to make distributions or reduce the value of our assets without giving our stockholders the right to vote.

We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may result in riskier investments than our current investments.

We may change our investment and financing strategies and enter into new lines of business at any time without the consent of our stockholders, which could result in our making investments and engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this prospectus. A change in our investment strategy or our entry into new lines of business may increase our exposure to interest rate and other risks of real estate market fluctuations.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors and officers liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for liability actually incurred in connection with any proceeding to which they may be made, or threatened to be made, a party, except to the extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was either committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

RISKS RELATED TO OUR COMMON STOCK

The existence of a large number of outstanding shares and stockholders could negatively affect our stock price.

As of December 31, 2008, we had approximately 175.1 million shares of common stock issued and outstanding. All of these shares are freely tradable, although our affiliates are subject to certain volume limitations on trading under the federal securities laws. Neither we nor any third party have any control over the timing or volume of these sales. Prior to the listing on the NYSE, the shares were not listed on any national exchange, and the ability of stockholders to liquidate their investments was limited. Subsequent to the completion of our listing on the NYSE, a large volume of sales of these shares could decrease the prevailing market prices of our common stock and could impair our ability to raise additional capital through the sale of equity securities in the future. Even if a substantial number of sales are not effected, the mere perception of the possibility of these sales could depress the market price of our common stock and have a negative effect on our ability to raise capital in the future. In addition, anticipated downward pressure on our common stock price due to actual or anticipated sales of common stock from this market overhang could cause some institutions or individuals to engage in short sales of our common stock, which may itself cause the price of our stock to decline.

Our distributions to stockholders may change.

Distributions will be authorized and determined by our board of directors in its sole discretion from time to time and will depend upon a number of factors, including:

- cash available for distribution;
- our results of operations;
- our financial condition, especially in relation to our anticipated future capital needs of our properties;
- the distribution requirements for REITs under the Code;
- our operating expenses; and
- other factors our board of directors deems relevant.

Consequently, we may not continue our current level of distributions to stockholders, and our distribution levels may fluctuate.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their proportionate ownership.

In addition, we have entered into a registration rights agreement with DCAG in respect of any shares of common stock acquired or otherwise owned by or issuable to DCAG or its permitted transferees upon exchange of the OP Units issued in the Internalization.

Sales of a substantial number of shares of our common stock by DCAG or its members or other holders of cash flow interests, or the perception that these sales could occur, could adversely affect prevailing prices for shares of our common stock. These sales might make it more difficult for us to sell equity securities in the future at a time and price we deem appropriate. As of December 31, 2008, DCAG or its members held 9.4 million OP units.

FEDERAL INCOME TAX RISKS

Failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.

We operate in a manner so as to qualify as a REIT for U.S. federal income tax purposes. Our qualification as a REIT will depend on our satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through our operating partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that we will qualify as a REIT for

any particular year. If we were to fail to qualify as a REIT in any taxable year for which a REIT election has been made, we would not be allowed a deduction for dividends paid to our stockholders in computing our taxable income and would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at corporate rates. As a consequence, we would not

Table of Contents

be compelled to make distributions under the Code. Moreover, unless we were to obtain relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our stockholders because of the additional tax liability to us for the years involved. As a result of the additional tax liability, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax.

To qualify as a REIT, we must meet annual distribution requirements.

To obtain the favorable tax treatment accorded to REITs, among other requirements, we normally will be required each year to distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and by excluding net capital gains. We may distribute taxable dividends that are payable in our stock. Under the Internal Revenue Service, or IRS, Revenue Procedure 2009-15, up to 90% of any such taxable dividend for 2009 could be payable in shares of our common stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the shares of common stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares of our common stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. We will be subject to federal income tax on our undistributed taxable income and net capital gain. In addition, if we fail to distribute during each calendar year at least the sum of (a) 85% of our ordinary income for such year, (b) 95% of our capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed by us, plus (ii) retained amounts on which we pay income tax at the corporate level. We intend to make distributions to our stockholders to comply with the requirements of the Code for REITs and to minimize or eliminate our corporate income tax obligation. However, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code. Certain types of assets generate substantial mismatches between taxable income and available cash. Such assets include rental real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, in order to comply with REIT requirements. Further, amounts distributed will not be available to fund our operations.

Legislative or regulatory action could adversely affect our stockholders.

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure our stockholders that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our common stock. All stockholders are urged to consult with their tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in common stock.

Distributions payable by REITs do not qualify for the reduced tax rates that apply to certain other corporate distributions.

Tax legislation enacted in 2003 and 2006 generally reduces the maximum tax rate for distributions payable by corporations to individuals to 15% through 2010. Distributions payable by REITs, however, generally continue to be taxed at the normal rate applicable to the individual recipient rather than the 15% preferential rate. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate distributions could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay distributions, which could adversely affect the value of the stock of REITs, including our common stock.

Recharacterization of transactions under our operating partnership s private placement may result in a 100% tax on income from prohibited transactions, which would diminish our cash distributions to our stockholders.

The IRS could recharacterize transactions under our operating partnership s private placement such that our operating partnership is treated as the bona fide owner, for tax purposes, of properties acquired and resold by the entity established to facilitate the transaction. Such recharacterization could result in the income realized on these transactions by our operating partnership being treated as gain on the sale of property that is held as inventory or otherwise held primarily for the sale to customers in the ordinary course of business. In such event, such gain would constitute income from a prohibited transaction and would be subject to a 100% tax. If this occurs, our ability to pay cash distributions to our stockholders will be adversely affected.

In certain circumstances, we may be subject to federal and state income taxes, which would reduce our cash available for distribution to our stockholders.

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes. For example, net income from a prohibited transaction will be subject to a 100% tax. In addition, we may not be able to make sufficient distributions to avoid excise taxes. We may also decide to retain certain gains from the sale or other disposition of our property and pay income tax directly on such gains. In that event, our stockholders would be required to include such gains in income and would receive a corresponding credit for their share of taxes paid by us. We may also be subject to state and local taxes on our income or property, either directly or at the level of our operating partnership or at the level of the other companies through which we indirectly own our assets. In addition, any net taxable income earned directly by the taxable REIT subsidiary, which we refer to as the TRS, we utilize to hold fractional TIC Interests in certain of our properties will be subject to federal and state corporate income tax. Any federal or state taxes we pay will reduce our cash available for distribution to our stockholders.

If our operating partnership was classified as a publicly traded partnership under the Code, our status as a REIT and our ability to pay distributions to our stockholders could be adversely affected.

Our operating partnership is organized as a partnership for U.S. federal income tax purposes. Even though our operating partnership will not elect to be treated as an association taxable as a corporation, it may be taxed as a corporation if it is deemed to be a publicly traded partnership. A publicly traded partnership is a partnership whose interests are traded on an established securities market or are considered readily tradable on a secondary market or the substantial equivalent thereof. We believe and currently intend to take the position that our operating partnership should not be classified as a publicly traded partnership because interests in our operating partnership are not traded on an established securities market, and our operating partnership should satisfy certain safe harbors which prevent a partnership s interests from being treated as readily tradable on an established securities market or substantial equivalent thereof. No assurance can be given, however, that the IRS would not assert that our operating partnership constitutes a publicly traded partnership or that facts and circumstances will not develop which could result in our operating partnership being treated as a publicly traded partnership. If the IRS were to assert successfully that our operating partnership is a publicly traded partnership, and substantially all of our operating partnership s gross income did not consist of the specified types of passive income, our

operating partnership would be treated as an association taxable as a corporation and would be subject to corporate tax at the entity level. In such event, the character of our assets and items of gross income would change and would result in a termination of our status as a REIT. In addition, the imposition of a corporate tax on our operating partnership would reduce the amount of cash available for distribution to our stockholders.

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

From time to time, we may transfer or otherwise dispose of some of our properties, including the contribution of properties to our joint venture funds or other commingled investment vehicles. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property or our contributions of properties into our joint venture funds, or commingled investment vehicles, are properly treated as prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The IRS may contend that certain transfers or disposals of properties by us or contributions of properties into our joint venture funds are prohibited transactions. While we believe that the IRS would not prevail in any such dispute, if the IRS were to argue successfully that a transfer or disposition or contribution of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a real estate investment trust for federal income tax purposes.

Foreign investors may be subject to Foreign Investment Real Property Tax Act, or FIRPTA, tax on sale of common stock if we are unable to qualify as a domestically controlled REIT or if our stock is not considered to be regularly traded on an established securities market.

A foreign person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests or USRPIs, is generally subject to a tax, known as FIRPTA tax, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is a domestically controlled qualified investment entity. A domestically controlled qualified investment entity includes a REIT in which, at all times during a specified testing period, less than 50% in value of its shares is held directly or indirectly by non-U.S. holders. In the event that we do not constitute a domestically controlled qualified investment entity, a person s sale of stock nonetheless will generally not be subject to tax under FIRPTA as a sale of a USRPI, provided that (1) the stock owned is of a class that is regularly traded, as defined by applicable Treasury regulations, on an established securities market, and (2) the selling non-U.S. holder held 5% or less of our outstanding stock of that class at all times during a specified testing period. If we were to fail to so qualify as a domestically controlled qualified investment entity, and our common stock were to fail to be regularly traded, gain realized by a foreign investor on a sale of our common stock would be subject to FIRPTA tax. No assurance can be given that we will be a domestically controlled qualified investment entity.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

Geographic Distribution

The following table describes the geographic diversification of our consolidated properties as of December 31, 2008.

Markets	Number of Buildings	Percentage Owned (1)	Square Feet (in thousands)	Occupancy Percentage (2)	Annualized Base Rent (3) (in thousands)	Percentage of Total Annualized Base Rent
Operating Properties:						
Atlanta	50	100.0%	6,060	87.6%	$ 19,741	10.2%
Baltimore/ Washington D.C.	12	100.0%	1,446	97.1%	7,153	3.7%
Central Pennsylvania	8	100.0%	1,453	95.8%	5,440	2.8%
Charlotte	10	100.0%	1,006	83.6%	3,196	1.7%
Chicago	15	99.4%	2,866	99.2%	10,847	5.6%
Cincinnati	35	100.0%	3,739	87.5%	10,652	5.5%
Columbus	14	100.0%	4,301	93.1%	12,551	6.5%
Dallas (5)	46	100.0%	4,352	90.6%	14,843	7.7%
Denver	1	100.0%	160	100.0%	948	0.5%
Houston	40	100.0%	2,911	92.2%	13,701	7.1%
Indianapolis	8	100.0%	3,103	95.9%	9,106	4.7%
Kansas City	1	100.0%	225	88.9%	877	0.5%
Louisville	4	100.0%	1,330	100.0%	4,396	2.3%
Memphis	10	100.0%	4,333	97.7%	12,080	6.2%
Mexico	11	100.0%	1,127	91.2%	4,340	2.2%
Miami	6	100.0%	727	62.0%	4,474	2.3%
Minneapolis	3	100.0%	356	100.0%	1,773	0.9%
Nashville	4	100.0%	2,256	96.7%	6,938	3.6%
New Jersey	9	100.0%	1,051	94.2%	5,473	2.8%
Northern California	25	100.0%	2,582	99.3%	14,824	7.7%
Orlando	12	100.0%	1,064	87.7%	4,836	2.5%
Phoenix	14	100.0%	1,632	100.0%	7,471	3.9%
San Antonio	15	100.0%	1,349	90.2%	4,154	2.1%
Seattle	7	100.0%	1,115	100.0%	5,634	2.9%
Southern California	13	100.0%	1,593	95.3%	7,970	4.1%
Total/Weighted Average Operating Properties (6)	**373**	**100.0%**	**52,137**	**93.2%**	**193,418**	**100.0%**
Consolidated Redevelopment Properties	6	100.0%	924	14.3%	191	N/A
Consolidated Development Properties	12	99.2%	2,899	19.5%	1,683	N/A
Total/Weighted Average Consolidated Properties	**391**	**99.9%**	**55,960**	**88.0%**	**$ 195,292**	**N/A**

(1) Weighted average ownership is based on square feet.
(2) Based on leases commenced as of December 31, 2008.
(3) Annualized Base Rent is calculated as monthly contractual base rent (cash basis) per the terms of the lease, as of December 31, 2008, multiplied by 12.
(4) Calculated as Annualized Base Rent divided by square feet under lease as of December 31, 2008.
(5) Three of our buildings in this market totaling approximately 743,000 square feet are subject to ground leases.

(footnotes continue on following page)

Table of Contents

(footnotes to previous page)

(6) Occasionally our leases contain provisions giving the tenant rights to purchase the property, which can take the form of a fixed price purchase option, a fair market value option, a right of first refusal option or a right of first offer option. The following chart summarizes such rights related to our consolidated operating properties as of December 31, 2008:

	Number of Leases	Square Feet (in thousands)	Annualized Base Rent (in thousands)
Fixed Price Purchase Options	3	1,323	$ 4,005
Fair Market Value Options	6	597	$ 2,721
Right of First Refusal Options	3	335	$ 659

The following table describes the geographic diversification of our investments in unconsolidated properties:

Markets	Number of Buildings	Percentage Owned [1]	Square Feet (in thousands)	Occupancy Percentage	Annualized Base Rent (in thousands)	Percentage of Total Annualized Base Rent
Operating Properties:						
Southern California SCLA[2]	2	50.0%	463	100.0%	$ 1,647	45.0%
Southern California other	1	90.0%	413	100.0%	2,011	55.0%
Total/Weighted Average	3	68.9%	876	100.0%	$ 3,658	100.0%
Operating Properties in Funds:						
Atlanta	2	17.2%	703	100.0%	$ 1,964	4.0%
Central Pennsylvania	4	8.6%	1,210	96.7%	4,759	9.7%
Charlotte	1	4.4%	472	100.0%	1,415	2.9%
Chicago	4	18.1%	1,525	100.0%	5,912	12.0%
Cincinnati	5	11.9%	1,847	100.0%	6,085	12.3%
Columbus	2	6.3%	451	90.4%	1,550	3.2%
Dallas	4	16.8%	1,726	91.8%	5,291	10.7%
Denver	5	20.0%	773	97.7%	3,567	7.2%
Indianapolis	1	11.4%	475	100.0%	248	0.5%
Kansas City	1	11.4%	180	100.0%	728	1.5%
Louisville	5	10.0%	900	96.9%	2,775	5.6%
Memphis	1	20.0%	1,039	100.0%	2,980	6.0%
Minneapolis	3	4.4%	472	100.0%	2,306	4.7%
Nashville	2	20.0%	1,020	100.0%	3,735	7.6%
New Jersey	2	10.7%	216	100.0%	1,193	2.4%
Northern California	1	4.4%	396	100.0%	1,711	3.5%
Orlando	2	20.0%	696	100.0%	3,053	6.2%
Total/Weighted Average Fund Operating Properties	**45**	**14.1%**	**14,101**	**98.1%**	**$ 49,272**	**100.0%**
Unconsolidated Development Properties:						
Total/Weighted Average	10	59.8%	4,482	N/A	N/A	N/A

Total/Weighted Average Unconsolidated Properties	58	27.1%	19,459	N/A	N/A	N/A

(1) Percentage owned is based on equity ownership weighted by square feet, if applicable.

(2) Although we contributed 100% of the initial cash equity capital required by the SCLA joint venture, our partners retain certain participation rights in the venture s available cash flows.

Table of Contents

Property Types

The following table reflects our consolidated portfolio by property type, in terms of square footage, as of December 31, 2008 (square feet in thousands).

	Bulk Distribution			Light Industrial			Service Center			Total Portfolio		
	Number of Buildings	Square Feet	Occ. % [1]	Number of Buildings	Square Feet	Occ. % [1]	Number of Buildings	Square Feet	Occ. % [1]	Number of Buildings	Square Feet	Occ. % [1]
Total/Weighted Average Operating Properties	218	44,330	93.7%	113	6,322	91.6%	42	1,485	83.9%	373	52,137	93.2%
Properties Under Redevelopment	2	578	11.2%	4	346	19.4%	N/A	N/A	N/A	6	924	14.3%
Properties Under Development	10	2,773	20.4%	2	126	0.0%	N/A	N/A	N/A	12	2,899	19.5%
Total/Weighted Average	230	47,681	88.4%	119	6,794	86.2%	42	1,485	83.9%	391	55,960	88.0%

(1) Occupancy percentage is based on leases commenced as of December 31, 2008.

Lease Expirations

Our industrial properties are typically leased to tenants for terms ranging from three to 10 years with a weighted average remaining term of approximately 3.2 years as of December 31, 2008. Following is a schedule of expiring leases for our consolidated operating properties by square feet and by annual minimum rents as of December 31, 2008 and assuming no exercise of lease renewal options.

	Square Feet Related to Expiring Leases (in thousands)	Annualized Minimum Rents of Expiring Leases [1] (in thousands)	Percentage of Total Annualized Base Rent
2009 [2]	9,640	$ 37,269	17.8%
2010	10,487	43,059	20.6%
2011	7,937	33,436	16.0%
2012	5,245	25,171	12.1%
2013	5,901	26,455	12.7%
Thereafter	9,359	43,340	20.8%
	48,569	$ 208,730	100.0%
Vacant	3,568		
Total consolidated operating properties	52,137		

(1) Includes contractual rent increases.
(2) Includes leases that are on month-to-month terms.

30

Table of Contents

Customer Diversification

As of December 31, 2008, there were no customers that occupied more that 5.0% of our consolidated and unconsolidated operating properties and development properties based on annualized base rent or gross leased square feet. The following table reflects our 10 largest customers, based on annualized base rent as of December 31, 2008, that occupy approximately 10.6 million square feet in all consolidated and unconsolidated operating properties, and development properties.

Customer	Percentage of Annualized Base Rent
Deutsche Post World Net (DHL & Exel)	2.7%
Technicolor	1.6%
Whirlpool Corporation	1.5%
Bridgestone/Firestone	1.5%
S.C Johnson & Son, Inc.	1.2%
The Clorox Sales Company	1.1%
EGL, Inc.	1.1%
Ozburn-Hessey Logistics	1.1%
United Parcel Service (UPS)	1.0%
Home Depot Inc.	1.0%

Industry Diversification

The table below illustrates the diversification of our consolidated operating portfolio by the industry classifications of our tenants as of December 31, 2008, (dollar amounts in thousands).

	Number of Leases	Annualized Base Rent [1]	Annualized Base Rent as a Percentage of Total	Occupied Square Feet (in thousands)	Percentage of Total Occupied Square Feet
Third Party Logistics /Warehousing/Transport Services	133	$ 45,213	23.4%	12,452	25.6%
Retail/Wholesale	81	21,858	11.3%	5,800	11.9%
Paper/Packaging/Printing	54	13,844	7.2%	3,576	7.4%
Building Supplies	63	12,673	6.6%	2,934	6.0%
Industrial Durables	39	11,992	6.2%	2,988	6.2%
Chemicals	23	9,296	4.8%	2,513	5.2%
Computer/Electronics	49	9,019	4.7%	2,404	4.9%
Electrical/Mechanical	42	8,578	4.4%	1,971	4.1%
Food	32	7,703	4.0%	1,455	3.0%
Furniture/Home Furnishings	28	7,099	3.7%	2,010	4.1%
Automotive	30	4,654	2.4%	1,020	2.1%
Consumer Packaged Goods	17	3,815	2.0%	1,451	3.0%
Medical Products	20	3,796	2.0%	806	1.7%
Apparel	7	3,119	1.6%	881	1.8%
Pharmaceuticals	5	1,784	0.9%	314	0.6%
Metals	5	1,006	0.5%	137	0.3%
Other	211	27,969	14.3%	5,857	12.1%
Total	839	$ 193,418	100.0%	48,569	100.0%

(1) Annualized Base Rent is calculated as monthly contractual base rent (cash basis) per the terms of the lease, as of December 31, 2008, multiplied by 12.

Table of Contents

Indebtedness

As of December 31, 2008, 143 our 373 consolidated operating properties and five redevelopment properties, with a combined historical cost of $1.2 billion were encumbered by mortgage indebtedness totaling $570.5 million (excluding net premiums), having a weighted average interest rate of 5.16%. See Note 5 to our Consolidated Financial Statements and the accompanying Schedule III beginning on page F-51 for additional information.

ITEM 3. LEGAL PROCEEDINGS

See the information under the caption Legal Matters in Note 7 to our Consolidated Financial Statements for information regarding legal proceedings, which information is incorporated by reference in this Item 3.

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

None.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock has been listed and traded on the New York Stock Exchange, or the NYSE, under the symbol DCT since December 13, 2006.

Quarter ended in 2008:	High	Low
December 31,	$ 7.66	$ 2.49
September 30,	$ 9.00	$ 6.35
June 30,	$ 10.55	$ 8.25
March 31,	$ 10.20	$ 7.99

Quarter ended in 2007:	High	Low
December 31,	$ 11.63	$ 9.01
September 30,	$ 11.16	$ 9.00
June 30,	$ 11.88	$ 10.06
March 31,	$ 12.05	$ 10.48

On February 17, 2009 the closing price of our Common Stock was $3.13 share, as reported on the NYSE and there were 176,094,722 shares of Common Stock outstanding, held by approximately 3,204 stockholders of record. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one recordholder.

Distribution Policy

We intend to continue to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes. U.S. federal income tax law requires that a REIT distribute with respect to each year at least 90% of its annual REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We will not be required to make distributions with respect to income derived from the activities conducted through DCT Industrial TRS Inc., our TRS, that are not distributed to us. To the extent our TRS s income is not distributed and is instead reinvested in the operations of our TRS, the value of our equity interest in our TRS will increase. The aggregate value of the securities that we hold in our TRS may not exceed 20% (25% for taxable years beginning after July 30, 2008) of the total value of our gross assets. Distributions from our TRS to us will qualify for the 95% gross income test but will not qualify for the 75% gross income test. Therefore, distributions from our TRS to us in no event will exceed 25% of our gross income with respect to any given taxable year.

To satisfy the requirements to qualify as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions of all or substantially all of our taxable net income to holders of our Common Stock out of assets legally available therefore. Any future distributions we make will be at the discretion of our board of directors and will depend upon our earnings and financial condition, maintenance of REIT qualification, applicable provisions of the MGCL and such other factors as our board of directors deems relevant.

We anticipate that, for U.S. federal income tax purposes, distributions generally will be taxable to our stockholders as ordinary income, although some portion of our distributions may constitute qualified dividend income, capital gains or a return of capital.

Table of Contents

The following table sets forth the distributions that have been declared by our board of directors on our Common Stock during the fiscal years ended December 31, 2008 and 2007.

Amount Declared During Quarter Ended in 2008:	Per Share	Date Paid
December 31,	$ 0.08	January 16, 2009
September 30,	0.16	October 17, 2008
June 30,	0.16	July 18, 2008
March 31,	0.16	April 18, 2008
Total 2008	$ 0.56	

Amount Declared During Quarter Ended in 2007:	Per Share	Date Paid
December 31,	$ 0.16	January 17, 2008
September 30,	0.16	October 19,2007
June 30,	0.16	July 20, 2007
March 31,	0.16	April 19, 2007
Total 2007	$ 0.64	

Our distributions to stockholders are characterized for federal income tax purposes as ordinary income or a non-taxable return of capital. Distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital for tax purposes rather than a dividend and reduce the stockholders basis in the common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the stockholders basis in the common shares, it will generally be treated as a gain from the sale or exchange of that shareholder s common shares. We notify stockholders of the taxability of distributions paid during the preceding year on an annual basis.

The following summarizes the taxability of distributions on common shares for the years ended December 31, 2008, 2007 and 2006:

	2008		2007		2006	
	Per Share Amount	Percentage	Per Share Amount	Percentage	Per Share Amount	Percentage
Ordinary Income	$ 0.318	66.23%	$ 0.326	50.95%	$ 0.226	35.35%
15% Capital Gains	0.065	13.50%	0.032	4.99%	0.002	0.38%
25% Capital Gains	0.049	10.20%	0.007	1.12%	0.002	0.34%
Return of Capital	0.048	10.07%	0.275	42.94%	0.409	63.93%
Total	$ 0.480	100.00%	$ 0.640	100.00%	$ 0.639	100.00%

Table of Contents

Performance Graph

The graph below shows a comparison of cumulative total stockholder returns for DCT Industrial Trust Inc. Common Stock with the cumulative total return on the Standard and Poor s 500 Index and the MSCI US REIT Index. Stockholders returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

	December 13, 2006	December 31, 2006	December 31, 2007	December 31, 2008
DCT Industrial Trust Inc.	$100.00	$96.86	$81.09	$47.48
S&P 500®	$100.00	$100.44	$105.96	$66.76
MSCI US REIT Index	$100.00	$99.58	$82.84	$51.38

Note: The graph covers the period from December 13, 2006 to December 31, 2008 and assumes that $100 was invested in DCT Industrial Trust Common Stock and in each index on December 13, 2006 and that all dividends were reinvested.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data relating to our historical financial condition and results of operations for the years ended December 31, 2008, 2007, 2006, 2005, and 2004. Certain amounts presented for the periods ended December 31, 2007, 2006, 2005 and 2004 have been reclassified to conform to the 2008 presentation. The financial data in the table should be read in conjunction with, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and related notes in Item 8. Financial Statements and Supplementary Data.

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(amounts in thousands, except per share data)				
Operating Data:					
Rental revenues	$ 248,631	$ 245,887	$ 209,851	$ 113,539	$ 31,289
Total revenues	$ 251,555	$ 248,758	$ 211,107	$ 113,539	$ 31,289
Rental expenses and real estate taxes	$ (64,509)	$ (60,258)	$ (47,891)	$ (25,866)	$ (6,283)
Total operating expenses	$ (207,833)	$ (190,402)	$ (172,801)	$ (103,137)	$ (27,298)
Loss on contract termination and related Internalization expenses	$	$	$ (173,248)	$	$
Income (loss) from continuing operations	$ (8,795)	$ 1,469	$ (174,654)	$ (13,865)	$ (854)
Income from discontinued operations	$ 17,870	$ 12,705	$ 6,620	$ 1,905	$ 599
Gain on dispositions of real estate interests, net of minority interest	$ 411	$ 25,938	$ 9,061	$	$
Net income (loss)	$ 9,486	$ 40,112	$ (158,973)	$ (11,960)	$ (255)
Net income (loss) adjusted for impairment losses and loss on contract termination and related Internalization expenses [1]:					
Net income (loss)	$ 9,486	$ 40,112	$ (158,973)	$ (11,960)	$ (255)
Impairment losses, net of minority interest	8,892				
Loss on contract termination and related Internalization expenses, net of minority interest			152,025		
Net income (loss) adjusted for impairment losses and loss on contract termination and related Internalization expenses	$ 18,378	$ 40,112	$ (6,948)	$ (11,960)	$ (255)
Funds from operations attributable to common shares diluted	$ 113,988	$ 137,617	$ (62,260)	$ 58,569	$ 19,018
Common Share Distributions:					
Common share cash distributions declared	$ 96,223	$ 107,816	$ 98,145	$ 62,292	$ 24,263
Common share cash distributions declared per share	$ 0.560	$ 0.640	$ 0.639	$ 0.640	$ 0.640

(footnotes on page 39)

	As of, and For the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(dollar amounts in thousands, except per share data)				
Per Share Data:					
Basic earnings (loss) per common share:					
Income (loss) from continuing operations	$ (0.05)	$ 0.01	$ (1.16)	$ (0.14)	$ (0.02)
Income from discontinued operations	0.11	0.08	0.04	0.02	0.01
Gain on dispositions of real estate interests, net of minority interest	0.00	0.15	0.06		
Net earnings (loss)	$ 0.06	$ 0.24	$ (1.06)	$ (0.12)	$ (0.01)
Diluted earnings (loss) per common share:					
Income (loss) from continuing operations	$ (0.05)	$ 0.01	$ (1.16)	$ (0.14)	$ (0.02)
Income from discontinued operations	0.11	0.08	0.04	0.02	0.01
Gain on dispositions of real estate interests, net of minority interest	0.00	0.15	0.06		
Net earnings (loss)	$ 0.06	$ 0.24	$ (1.06)	$ (0.12)	$ (0.01)
Basic and diluted earnings (loss) per common share adjusted for impairment losses and loss on contract termination and related Internalization expenses [1]:					
Net earnings (loss)	$ 0.06	$ 0.24	$ (1.06)	$ (0.12)	$ (0.01)
Loss on contract termination and related Internalization expenses, net of minority interest			1.01		
Impairment losses, net of minority interest	0.05				
Net earnings (loss) adjusted for impairment losses and loss on contract termination and related Internalization expenses	$ 0.11	$ 0.24	$ (0.05)	$ (0.12)	$ (0.01)
Basic FFO per share	$ 0.55	$ 0.69	$ (0.41)	$ 0.60	$ 0.50
Diluted FFO per share	$ 0.55	$ 0.69	$ (0.41)	$ 0.60	$ 0.50
Weighted average shares outstanding, basic (in thousands)	171,695	168,358	150,320	97,333	37,908
Weighted average shares outstanding, diluted (in thousands)	207,521	200,823	158,097	97,774	37,928
Consolidated, operating square feet (in thousands)	52,137	51,292	51,908	36,104	15,022
Consolidated operating buildings	373	367	356	242	94

(footnotes on page 39)

Table of Contents

	As of, and For the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(dollar amounts in thousands)				
Balance Sheet Data:					
Net investment in real estate	$ 2,605,909	$ 2,674,965	$ 2,707,650	$ 1,904,411	$ 732,202
Total assets	$ 2,703,843	$ 2,778,992	$ 2,848,224	$ 2,057,695	$ 784,808
Mortgage notes	$ 574,634	$ 649,568	$ 641,081	$ 642,242	$ 142,755
Total liabilities	$ 1,302,343	$ 1,266,538	$ 1,394,407	$ 869,307	$ 203,593
Cash Flow Data:					
Net cash provided by operating activities	$ 128,349	$ 116,949	$ 91,714	$ 66,295	$ 21,188
Net cash used in investing activities	$ (42,317)	$ (3,670)	$ (968,761)	$ (750,877)	$ (560,332)
Net cash provided by (used in) financing activities	$ (96,832)	$ (106,108)	$ 805,439	$ 755,980	$ 558,587

	For the Years Ended December 31,				
	2008 [2]	2007	2006 [2]	2005	2004
	(dollar amounts in thousands, except per share data)				
Funds From Operations [3]:					
Net income (loss)	$ 9,486	$ 40,112	$ (158,973)	$ (11,960)	$ (255)
Real estate related depreciation and amortization	119,604	115,465	111,792	72,206	19,273
Equity in losses of unconsolidated joint ventures	(2,267)	(433)	289		
Equity in FFO of unconsolidated joint ventures	6,806	2,742	545		
(Gain) on dispositions of real estate interests	(504)	(30,748)	(9,409)		
(Gain) on dispositions of real estate interests related to discontinued operations	(21,487)	(12,125)	(5,187)		
Gain on dispositions of non-depreciable assets	219	15,135	4,244		
Minority interest in the operating partnership s share of the above adjustments	(17,664)	(14,711)	(5,561)	(1,939)	(10)
Funds from operations attributable to common shares	94,193	115,437	(62,260)	58,307	19,008
FFO attributable to dilutive OP Units	19,795	22,180		262	10
Funds from operations attributable to common shares diluted	$ 113,988	$ 137,617	$ (62,260)	$ 58,569	$ 19,018
Basic FFO per share	$ 0.55	$ 0.69	$ (0.41)	$ 0.60	$ 0.50
Diluted FFO per share	$ 0.55	$ 0.69	$ (0.41)	$ 0.60	$ 0.50

(footnotes on page 39)

Table of Contents

The following table is a reconciliation of our property net operating income, or NOI, to our reported Income (Loss) From Continuing Operations for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 (in thousands):

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
Property NOI [4]	$ 184,122	$ 185,629	$ 161,960	$ 87,673	$ 25,006
Institutional capital management and other fees	2,924	2,871	1,256		
Real estate related depreciation and amortization	(117,211)	(110,597)	(103,623)	(65,576)	(17,393)
General and administrative expenses	(21,799)	(19,547)	(7,861)	(2,794)	(2,097)
Asset management fees, related party			(13,426)	(8,901)	(1,525)
Equity in income (losses) of unconsolidated joint ventures, net	2,267	433	(289)		
Impairment losses	(9,047)				
Loss on contract termination and other Internalization expenses			(173,248)		
Interest expense	(52,387)	(60,463)	(65,990)	(27,799)	(5,978)
Interest income and other	1,257	4,666	5,361	3,193	1,408
Income taxes	(829)	(1,464)	(1,392)	(210)	(275)
Minority interests	1,908	(59)	22,598	549	
Income (loss) from continuing operations	$ (8,795)	$ 1,469	$ (174,654)	$ (13,865)	$ (854)

(1) We believe that net income (loss) excluding impairment losses is useful supplemental information regarding our operating performance as it allows investors to more easily compare our operating results without taking into account the unrelated impairment losses relating to the decrease in value of certain real estate assets and investments in unconsolidated joint venures that we incurred during 2008 primarily in connection with the current economic slow-down in the United States. Additionally, we believe that net income (loss) and net income (loss) per share excluding the loss on contract termination and related Internalization expenses is useful supplemental information regarding our operating performance as it allows investors to more easily compare our operating results without taking into account the significant charge that we incurred in the fourth quarter of 2006 in connection with the internalization of our management (see the additional description of the Internalization in Note 14 to our Consolidated Financial Statements).

(2) Funds from operations for the year ended December 31, 2008 includes a charge for impairment losses of $10.7 million and Fund from operations for the year ended December 31, 2006 includes a charge for contract termination and related Internalization expenses of $173.2 million.

(3) We believe that net income, as defined by GAAP is the most appropriate earnings measure. However, we consider FFO as defined by the National Association of Real Estate Investment Trusts, or NAREIT, to be a useful supplemental measure of our operating performance. NAREIT developed FFO as a relative measure of performance of an equity REIT in order to recognize that the value of income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is generally defined as net income, calculated in accordance with GAAP, plus real estate-related depreciation and amortization, less gain (or loss) from dispositions of real estate held for investment purposes and adjustments to derive our pro rata share of FFO of consolidated and unconsolidated joint ventures. Readers should note that FFO captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our results from operations. Other REITs may not calculate FFO in accordance with the NAREIT definition and, accordingly, our FFO may not be comparable to such other REITs FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance.

(4) Property net operating income, or property NOI, is defined as rental revenues, including reimbursements, less rental expenses and real estate taxes, which excludes depreciation, amortization, general and administrative expenses and interest expense. We consider property NOI to be an appropriate supplemental performance measure because property NOI reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the property such as depreciation, amortization, general and administrative expenses and interest expense. However, property NOI should not be viewed as an alternative measure of our financial performance since it excludes expenses which could materially impact our results of operations. Further, our property NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating property NOI. Therefore, we believe net income, as defined by GAAP, to be the most appropriate measure to evaluate our overall financial performance.

39

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

DCT Industrial Trust Inc. is a leading industrial real estate company that owns, operates and develops high-quality bulk distribution and light industrial properties in high-volume distribution markets in the U.S. and Mexico. As of December 31, 2008, the Company owned, managed or had under development approximately 75.9 million square feet of assets leased to approximately 850 customers, including 14.6 million square feet managed on behalf of three institutional joint venture partners, and has 7.7 million square feet under development. Our portfolio primarily consists of high-quality, generic bulk distribution warehouses and light industrial properties. We own our properties through our operating partnership and its subsidiaries. DCT Industrial Trust Inc. is the sole general partner and owned approximately 84% of the outstanding equity interests of our operating partnership as of December 31, 2008. We acquired our first property in June 2003 and currently, our portfolio consists of 373 consolidated operating properties as of December 31, 2008.

Prior to October 10, 2006, our day-to-day operations were managed by Dividend Capital Advisors LLC, or our Former Advisor, under the supervision of our board of directors pursuant to the terms and conditions of an advisory agreement with our Former Advisor. On October 10, 2006, our operating partnership acquired our Former Advisor in the transaction we refer to as the Internalization. As a result of the Internalization, we became a self-administered and self-advised REIT, as our Former Advisor is now our wholly-owned subsidiary, and we no longer incur the cost of the advisory fees and other amounts payable under the advisory agreement.

Outlook

The primary source of our operating revenues and earnings is rents received from tenants under operating leases at our properties, including reimbursements from tenants for certain operating costs. We seek long-term earnings growth primarily through increasing rents and operating income at existing properties, acquiring and developing high-quality properties in major distribution markets, and increasing fee revenues from our institutional capital management program. In addition, we may recycle our capital by selling assets, contributing assets to joint ventures, funds or other commingled investment vehicles with institutional partners, and reinvesting the capital in target markets.

We believe near-term operating income from our existing properties will likely decrease as demand for warehouse space declines. The current economic recession is expected to result in a higher level of bankruptcies nationally, which could reduce the demand for leasing space in our business which will result in decreased occupancy and competitive pressure on rental rates. Any increased operating results from operating and development activities may be offset by the loss of income related to tenant bankruptcies or early lease terminations, to other potential impacts of the slowing economy and to property dispositions. As market values decline, we could experience additional impairment losses, decreased sales volume compared to prior years and less attractive pricing for any assets that we do sell, while depressed property values may also present us with attractive buying opportunities.

Although the credit markets continue to be extremely constrained in the real estate sector as a result of the liquidity constraints of major lending institutions and other traditional sources of debt capital, we believe that our sources of capital are adequate to meet our short-term and long-term liquidity requirements over the next few years. We have no major debt maturities until 2010 when a $300 million senior unsecured term loan comes due. However, this senior unsecured term loan can be extended at our option for one year so that we would not have any significant debt maturities until 2011. Additionally, as of December 31, 2008, we had $284.8 million available under our unsecured credit facility and cash and cash equivalents of approximately $19.7 million. These capital resources will be utilized in part to meet our purchase obligations and development project commitments as discussed in Liquidity and Capital Resources .

The principal risks to our business plan include:

- the challenges that we may face as a result of the current economic slow-down, including potential decreased demand for warehouse space, difficulty obtaining financing, tenant bankruptcies, declining real estate values and other challenges;
- our ability to lease space to customers at rates which provide acceptable returns and credit risks;
- our ability to sell or contribute assets at prices we find acceptable which generates funding for our business plan;
- our ability to finance our on-going capital needs, refinance future maturities and the related costs;
- our ability to locate development opportunities and to successfully develop and lease such properties on time and within budget;
- our ability to attract institutional partners in our institutional capital management program on terms that we find acceptable;
- our ability to acquire properties that meet our quantitative and qualitative investment criteria; and
- our ability to retain and attract talented people.

We believe our investment focus on the largest and most active distribution markets in the United States and Mexico and our monitoring of market and submarket demand and supply imbalances helps mitigate some of these risks.

We also expect the following key trends, once economic conditions stabilize, to affect our industry positively:

- the continued restructuring of corporate supply chains which may impact local demand for distribution space as companies relocate their operations consistent with their particular requirements or needs;
- the continued long-term growth in international trade which necessitates the increased import and export of products in the U.S. and Mexico;
- the growth or continuing importance of industrial markets located near major transportation hubs including seaports, airports and major intermodal facilities; and
- continuing advancements in technology and information systems which enhance companies abilities to control their investment in inventories.

These key trends may gradually change the characteristics of the facilities needed by our tenants. However, we believe the buildings in our portfolio are designed to be reconfigured and can accommodate gradual changes that may occur.

Inflation

Although the U.S. economy has been experiencing flat to moderately higher inflation rates, and a wide variety of industries and sectors are affected differently by changing commodity prices, inflation has not had a significant impact on us in our markets of operation. Most of our leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. In addition, many of the outstanding leases expire within five years which enables us to replace existing leases with new leases at the then-existing market rate.

Significant Transactions During 2008

Summary of the year ended December 31, 2008

During the year ended December 31, 2008, development activities continued on several properties in Mexico and several of our U.S. target markets. We expanded our presence in Mexico from eight buildings comprised of 0.6 million square feet to 12 buildings comprised of 1.3 million square feet. The following further describes certain significant transactions that occurred during the year ended December 31, 2008.

Acquisition Activity

During the year ended December 31, 2008, we acquired three operating properties located in two markets within the United States and one market within Mexico, comprised of approximately 0.4 million square feet for a total cost of approximately $23.8 million, which includes acquisitions costs. We also acquired four development properties located in Monterrey, Mexico, comprised of approximately 0.7 million square feet for a total cost of approximately $28.1 million, which includes acquisition costs. These properties were acquired from unrelated third parties using existing cash balances and borrowings under our credit facility.

Disposition Activity

During the year ended December 31, 2008, we sold 16 operating properties comprised of approximately 2.6 million square feet to unrelated third parties for gross proceeds of approximately $143.3 million, which resulted in gains of approximately $19.8 million, net of $1.7 million of impairment losses. Additionally, we contributed approximately 47 acres of land in Atlanta to the IDI/DCT Buford, LLC joint venture.

Institutional Capital Management

TRT-DCT Industrial Joint Venture III On September 9, 2008, we formed our third joint venture agreement with DCTRT, TRT-DCT Industrial Joint Venture III, G.P., (TRT-DCT Venture III), on September 9, 2008 with DCTRT. As of December 31, 2008, TRT-DCT Venture III owned approximately $31.0 million of real estate assets. TRT-DCT Venture III is structured and funded in a manner similar to TRT-DCT Venture I as described more fully in Note 4 to our Consolidated Financial Statements. On September 29, 2008, five properties were acquired from an unrelated party by the venture comprised of approximately 0.9 million square feet.

Major Development Activities

SCLA During 2006, we entered into a joint venture agreement with Stirling Airports International, LLC, or Stirling, an unrelated third party, to be the master developer of up to 4,350 acres in Victorville, California, part of the Inland Empire submarket in Southern California. The development project is located at the former George Air Force Base which closed in 1992 and is now known as Southern California Logistics Airport, or SCLA. We refer to this joint venture as the SCLA joint venture. Early in 2008, the SCLA joint venture began construction on one building comprised of approximately 1.0 million square feet. Additionally, three buildings comprised of 0.5 million square feet were completed during 2008. As of December 31, 2008, 0.1 million square feet of these buildings had been leased.

Stonefield Industrial, LLC On May 22, 2008, we entered into a joint venture agreement with Panattoni Development Company, an unrelated third-party developer, to form Stonefield Industrial, LLC. As of December 31, 2008, the joint venture owned approximately 49 acres in Reno, Nevada with total assets of approximately $8.2 million and $5.3 million in debt.

IDI/DCT Buford, LLC JV On March 10, 2008, we entered into a joint venture agreement with Industrial Developments International, Inc., an unrelated third-party developer whereby we contributed 47 acres in Atlanta, Georgia to the venture. We received cash proceeds of approximately $1.5 million, retained a 75% equity interest in the venture, and recognized a gain on the contribution of the land of

approximately $0.3 million. The venture may develop four distribution buildings comprised of approximately 0.6 million square feet. As of December 31, 2008, this joint venture owned approximately $6.3 million of real estate assets.

New Long-Term Borrowings

On June 6, 2008, we entered into a term loan agreement (the Agreement) with a syndicate of 10 banks pursuant to which we borrowed $300 million in senior unsecured term loans. Loans under the Agreement have a variable interest rate based on either the base rate under the Agreement or LIBOR, at our option, plus a margin that is based on our leverage ratio, as defined by the Agreement. The margins on base rate loans may range from 0% to 0.90%, and the margins on LIBOR-based loans may range from 1.25% to 1.85%. The base rate under the Agreement is defined as the higher of the overnight Federal funds rate plus 0.50% or Bank of America s prime rate. All loans under the Agreement are scheduled to mature on June 6, 2010, but they can be extended at our option for an additional year. We may prepay loans under the Agreement, in whole or in part, subject to the payment of a prepayment penalty of 0.50% on the prepaid amount, if such prepayment is made prior to March 6, 2009. Additionally, we must pay a fee of 0.15% quarterly in arrears on the average daily unused portion of the loan during such period.

Loans under the Agreement were funded in two tranches. The first $100 million was drawn by us on June 9, 2008 (the Initial Loan) and used to repay maturing unsecured notes. The remaining $200 million was drawn on October 3, 2008 (the Second Tranche) and used to repay borrowings under our credit facility. The Initial Loan has an interest rate based on LIBOR, and we entered into an interest rate swap to fix the LIBOR on the Initial Loan for two years at 3.23% per annum resulting in an effective interest rate of 4.73% per annum based on our current leverage ratio. The Second Tranche has an interest rate based on LIBOR plus 1.25% to 1.80% or at prime, at our election, and bears interest at an initial interest rate of 5.50%. We are required to pay interest on the Initial Loan and the Second Tranche monthly until maturity at which time the outstanding balance is due.

The Agreement contains various customary covenants (including, among others, financial covenants with respect to tangible net worth, debt service coverage and unsecured and secured consolidated leverage and covenants relating to dividends and other restricted payments, liens, certain investments and transaction with affiliates) and if we breach any of these covenants, or fail to pay interest or principal on the loans when due, the holders of the loans could accelerate the due date of the entire amount borrowed. The Agreement also contains other customary events of default, which would entitle the holders of the loans to accelerate the due date of the entire amount borrowed, including, among others, change of control events, defaults under certain other obligations of ours and insolvency or bankruptcy events.

During the year ended December 31, 2008, we refinanced maturing debt through a combination of extending existing maturities and new borrowings. We entered into an agreement, which was effective June 9, 2008, to extend the maturity date of $175.0 million of the then outstanding $275.0 million senior unsecured note from June 9, 2008 to June 9, 2013, bearing interest at a fixed rate of 6.11%. The remaining $100 million was repaid with the proceeds of our Initial Loan, as described above.

Critical Accounting Policies

General

Our discussion and analysis of financial condition and results of operations is based on our Consolidated Financial Statements which have been prepared in accordance with United States generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions

and estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe 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. Because of adverse conditions that exist in the real estate markets, as well as the credit and financial markets, it is possible that the estimates and assumptions that have been utilized in the preparation of the Consolidated Financial Statements could change materially during the time span associated with the continued weakened state of these markets. The following discussion pertains to accounting policies management believes are most critical to the portrayal of our financial condition and results of operations that require management s most difficult, subjective or complex judgments.

Revenue Recognition

We record rental revenues on a straight-line basis under which contractual rent increases are recognized evenly over the full lease term. Certain properties have leases that provide for tenant occupancy during periods where no rent is due or where minimum rent payments increase during the term of the lease. Accordingly, we record receivables from tenants that we expect to collect over the remaining lease term rather than currently, which are recorded as straight-line rents receivable. When we acquire a property, the terms of existing leases are considered to commence as of the acquisition date for the purposes of this calculation.

Tenant recovery income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as Rental revenues during the same period the related expenses are incurred.

We maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the net outstanding balances.

In connection with property acquisitions, we may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an intangible asset or liability pursuant to Statement of Financial Accounting Standards, or SFAS, No. 141, *Business Combinations*, or SFAS No. 141, and amortized to Rental revenues over the life of the related leases. The unamortized balances of these assets and liabilities associated with the early termination of leases are fully amortized to their respective revenue and expense line items in our Consolidated Statements of Operations over the shorter of the expected life of such assets and liabilities or the remaining lease term.

Investment in Real Estate, Valuation and Allocation of Real Estate Acquisition Cost

We capitalize direct costs associated with, and incremental to, the acquisition, development, redevelopment or improvement of real estate, including asset acquisition costs and leasing costs as well as direct internal costs, if appropriate. Costs associated with acquisition or development pursuits are capitalized as incurred and, if the pursuit is abandoned, these costs are expensed during the period in which the pursuit is abandoned. Such costs considered for capitalization include construction costs, interest, real estate taxes, insurance and other such costs if appropriate. Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is substantially complete based on our current, weighted average borrowing rates on related construction loans, if appropriate. Pre-development costs to prepare land for its intended use prior to significant construction activities are capitalized and classified as Construction in progress. Costs incurred for maintaining and repairing our real estate, which do not extend the life of our assets, are expensed as incurred.

Upon acquisition, the total cost of a property is allocated to land, building, building and land improvements, tenant improvements and intangible lease assets and liabilities pursuant to SFAS No. 141. The fair value of identifiable tangible assets such as land, building, building and land improvements and tenant improvements is

Table of Contents

determined on an as-if-vacant basis. Management considers the replacement cost of such assets, appraisals, property condition reports, market data and other related information in determining the fair value of the tangible assets. Pursuant to SFAS No. 141, the difference between the fair value and the face value of debt assumed in connection with an acquisition is recorded as a premium or discount and amortized to Interest expense over the life of the debt assumed. The valuation of assumed liabilities is based on the current market rate for similar liabilities. The allocation of the total cost of a property to an intangible lease asset includes the value associated with in-place leases that may include leasing commissions, legal and other costs. In addition, the allocation of the total cost of a property requires allocating costs to an intangible asset or liability resulting from in-place leases being above or below the market rental rates on the date of the acquisition. Intangible lease assets or liabilities will be amortized over the life of the remaining in-place leases as an adjustment to Rental revenues or Real estate related amortization depending on the nature of the intangible.

We have certain properties which we have acquired or removed from service with the intention to redevelop the building. Buildings under redevelopment require significant construction activities prior to being placed back into service. Additionally, we may acquire, develop, or redevelop certain properties with the intention to contribute the property to an institutional joint venture, in which we may retain ownership in or manage the assets of the joint venture. We refer to these properties as held for contribution. We generally do not depreciate properties classified as redevelopment or held for contribution until the date that the redevelopment properties are ready for their intended use or the property held for contribution no longer meets the held for sale criteria under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS No. 144.

Real estate, including land, building, building and land improvements, tenant improvements and leasing costs, and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization unless circumstances indicate that cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value.

Depreciation and Useful Lives of Real Estate Assets

We allocate the cost of our real estate assets to asset classes and estimate the related useful lives in order to record depreciation expense. Our ability to accurately allocate the cost of our real estate assets and their useful lives is critical to the determination of the appropriate amount of depreciation expense recorded and the carrying values of the underlying assets. Any change to the estimated depreciable lives of these assets would have an impact on the depreciation expense we recognize. Depreciation is not recorded on buildings currently held for sale or contribution, in pre-development, being developed or redeveloped until the building is substantially completed and ready for its intended use, not later than one year from cessation of major construction activity.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets or liabilities generally as follows:

Description	Standard Depreciable Life
Land	Not depreciated
Building	40 years
Building and land improvements	20 years
Tenant improvements	Shorter of lease term or useful life
Lease costs	Lease term
Intangible lease assets and liabilities	Average term of leases for property
Above/below market rent assets/liabilities	Lease term

The table above reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities. The cost of assets sold or retired and the related accumulated depreciation and/or amortization is removed from the accounts and the resulting gain or loss, if necessary, is reflected in our Consolidated Statements of Operations

during the period in which such sale or retirement occurs. If the useful life estimate was reduced by one year for all buildings and building and land improvements in continuing operations, depreciation expense would have increased $1.7 million on an annual basis.

Impairment of Long-Lived Assets and Investments in Unconsolidated Entities

Long-lived assets to be held and used are carried at cost and evaluated for impairment in accordance with SFAS No. 144. SFAS No. 144 provides that such an evaluation should be performed when events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Examples of trigger events include the point at which we deem the long-lived asset to be held for sale or a building remains vacant significantly longer than expected. For long-lived assets that we intend to hold long-term, recoverability is based on the estimated future undiscounted cash flows. If the asset is not supported on an undiscounted cash flow basis, the amount of impairment is measured as the difference between the carrying value and the fair value of the impaired asset. Long lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. The valuation of our long-lived assets is considered a critical accounting estimate because the assessment of impairment and the determination of fair values involve a number of management assumptions relating to future economic events that could materially affect the determination of the ultimate value, and therefore, the carrying amounts of our real estate. Such assumptions include, but are not limited to, projecting vacancy rates, rental rates, property operating expenses, capital expenditures and debt financing rates, among other things. The capitalization rate is also a significant driving factor in determining the property valuation which requires management s judgment of factors such as market knowledge, historical experience, lease terms, tenant financial strength, economy, demographics, environment, property location, visibility, age, physical condition and investor return requirements, among other things.

We evaluate our investments in unconsolidated entities for impairment whenever events or changes in circumstances indicate that there may be an other-than-temporary decline in value in accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, or APB No. 18. The amount of impairment recognized is the excess of the investment s carrying amount over its estimated fair value. We consider various factors to determine if a decrease in the value of the investment is other-than temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. If we believe that the decline in the fair value is temporary, no impairment is recorded. The aforementioned factors are taken as a whole by management in determining the valuation of our investment property. Should the actual results differ from management s judgment, the valuation could be negatively affected and may result in additional impairment losses recorded in our Consolidated Financial Statements.

Principles of Consolidation

The Company holds interests in both consolidated and unconsolidated joint ventures. We determine consolidation based on standards set forth in FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46(R)) or Emerging Issues Task Force (EITF) Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5). We do not consolidate joint ventures that are variable interest entities as defined under FIN 46(R) where we are not the primary beneficiary. In accordance with AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, where we do not exercise significant control over major operating and management decisions, but where we exercise significant influence, we use the equity method of accounting and our investments in these joint ventures are reported on the Consolidated Balance Sheets in Investments in and advances to unconsolidated joint ventures.

Our judgments with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a variable interest entity involve consideration of various factors including the form of our ownership interest, our representation on the entity s board of directors, the size of our investment (including

loans) and our ability to participate in policy making decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in our Consolidated Financial Statements and, consequently, our financial position and specific items in our results of operations that are used by our stockholders, lenders and others in their evaluation of us.

Fair Value

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. We have deferred the adoption of SFAS No. 157 with respect to nonfinancial assets and liabilities in accordance with the provisions of FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. Items in this classification include intangible assets and liabilities recorded in compliance with SFAS No. 141.

Pursuant to SFAS No. 157, fair value is defined as the exit price or price at which an asset (in its highest and best use) would be sold or liability assumed by an informed market participant in a transaction that is not distressed and is executed in the most advantageous market. SFAS No. 157 does not impose any new fair value requirements but provides guidance on how to determine such measurements on reported balances which are required or permitted to be measured at fair value under existing accounting pronouncements.

SFAS No. 157 emphasizes that fair value is a market-based rather than an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions based on the best information available in the circumstances (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, that are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Currently, the Company uses forward starting and interest rate swaps to manage certain interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

On a recurring basis, we measure our derivatives at fair value, which was a net liability of $21.5 million as of December 31, 2008. The fair value of these derivatives was determined using Level 2 inputs, as described in SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS No. 159, which expanded the use of the fair value measurement to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Upon adoption of this Statement, we did not elect the fair value option for our existing financial assets and liabilities and therefore adoption of SFAS No. 159 did not have any impact on our Consolidated Financial Statements.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141, *Business Combinations (revised 2007)*, or SFAS No. 141(R). SFAS No. 141(R) requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity s financial statements can fully understand the nature and financial impact of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply the provisions of SFAS No. 141(R) prior to that date. We are currently evaluating the application of SFAS No. 141(R) and its effect on our Consolidated Financial Statements which could be material to the extent that we acquire significant amounts of real estate as related acquisition costs will be expensed as incurred compared to our current practice prior to the adoption of SFAS No. 141(R) of capitalizing such costs and amortizing them over their estimated useful lives.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, or SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and requires recognition of gains or losses resulting from a change of control. Ownership changes not resulting in a change of control are treated as equity transactions. SFAS No. 160 applies to our fiscal year beginning January 1, 2009, and will be adopted prospectively. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. Early adoption is prohibited.

The adoption of SFAS No. 160 will result in a reclassification of minority interest to a separate component of total equity and net income attributable to noncontrolling interest will no longer be treated as a reduction to net income but will be shown as a reduction from net income in calculating net income available to common stockholders. Additionally, upon adoption, any future purchase or sale of interest in an entity that results in a change of control may have a material impact on our financial statements as our interest in the entity will be recognized at fair value with gains or losses included in net income. The adoption of SFAS No. 160 is not expected to have a material impact to diluted earnings per share.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities,* or SFAS No. 161. SFAS No. 161 requires companies with derivative instruments to disclose information that would enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, or SFAS No. 133 and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. The new requirements apply to derivative instruments and nonderivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; however, early application is encouraged. We intend to adopt SFAS No. 161 on January 1, 2009.

In June 2008, the FASB issued Emerging Issues Task Force 03-6-1, *Participating Securities and the Two Class Method under FASB Statement No. 128,* or EITF 03-6-1. The statement provides guidance on the calculation and disclosure of earnings per share. EITF 03-6-1 addresses whether instruments granted in share-based payment transaction are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We are currently evaluating the application of EITF 03-6-1 and its effect on our Consolidated Financial Statements.

Results of Operations

Summary of the year ended December 31, 2008 compared to the year ended December 31, 2007

DCT Industrial Trust Inc. is a leading industrial real estate company that owns, operates and develops high-quality bulk distribution and light industrial properties in high-volume distribution markets in the U.S. and Mexico. The Company owns or manages more than 75.9 million square feet of assets leased to approximately 850 corporate customers, including 14.6 million square feet managed on behalf of three institutional joint venture partners. As of December 31, 2008, we consolidated 373 operating properties, 12 development properties and six redevelopment properties. As of December 31, 2007, we consolidated 382 operating properties (15 of which were excluded from continuing operations as they were disposed of as of December 31, 2008) 10 development properties and five redevelopment properties.

Table of Contents

The following table illustrates the changes in our consolidated operating properties in continuing operations by segment as of, and for the years ended, December 31, 2008 compared to December 31, 2007, respectively (dollar amounts in thousands).

	2008		2007	
	Bulk Distribution	Light Industrial and Other	Bulk Distribution	Light Industrial and Other
Operating properties in continuing operations: [1]				
Number of buildings	218	155	211	156
Square feet (in thousands)	44,331	7,807	43,433	7,858
Occupancy at end of period	93.7%	90.1%	94.4%	90.4%
Segment net assets	$ 1,819,504	$ 518,347	$ 1,842,711	$ 539,903
Rental revenues	$ 190,225	$ 54,673	$ 192,378	$ 51,708
Property net operating income [2]	$ 144,333	$ 38,461	$ 148,251	$ 36,334

(1) Includes 19 operating properties held for contribution as of December 31, 2007, which are included in continuing operations as they do not meet the criteria to be classified as held for sale, in accordance with SFAS No. 144. As of December 31, 2008, no properties were classified as held for contribution.

(2) Property net operating income, or property NOI, is defined as rental revenues, including reimbursements, less rental expenses and real estate taxes, which excludes depreciation, amortization, general and administrative expenses and interest expense. We consider property NOI to be an appropriate supplemental performance measure because property NOI reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the property such as depreciation, amortization, general and administrative expenses and interest expense. However, property NOI should not be viewed as an alternative measure of our financial performance since it excludes expenses which could materially impact our results of operations. Further, our property NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating property NOI. Therefore, we believe net income, as defined by GAAP, to be the most appropriate measure to evaluate our overall financial performance. For a reconciliation of our property net operating income to our reported Income (Loss) From Continuing Operations , see Note 16 to our Consolidated Financial Statements.

The following table reflects our total assets, net of accumulated depreciation and amortization, by property type segment (in thousands):

	December 31, 2008	December 31, 2007 [1]
Property type segments:		
Bulk distribution	$ 1,819,504	$ 1,842,711
Light industrial and other	518,347	539,903
Total segment net assets	2,337,851	2,382,614
Development and redevelopment assets	174,082	112,847
Assets held for sale or disposed assets		113,586
Non-segment assets:		
Properties in pre-development including land held	21,074	25,025
Non-segment cash and cash equivalents	13,967	3,316
Other non-segment assets [2]	156,869	141,604
Total Assets	$ 2,703,843	$ 2,778,992

Table of Contents

(1) Reflects reclassifications for properties classified as discontinued operations at December 31, 2008.
(2) Other non-segment assets primarily consists of corporate assets including investments in unconsolidated joint ventures, notes receivable, certain loan costs, including loan costs associated with our financing obligations, and deferred acquisition costs.

Comparison of the year ended December 31, 2008 compared to the year ended December 31, 2007

The following table illustrates the changes in rental revenues, rental expenses and real estate taxes, property net operating income, other income and other expenses for the year ended December 31, 2008 compared to the year ended December 31, 2007. Our same store portfolio includes all operating properties that we owned for the entirety of both the current and prior year reporting periods. The same store portfolio for the periods presented totaled 337 buildings comprised of approximately 46.6 million square feet. A discussion of these changes follows the table (in thousands).

	Year Ended December 31,		
	2008	2007	$ Change
Rental Revenues			
Same store	$ 222,284	$ 221,075	$ 1,209
2008/2007 acquisitions and dispositions, net	21,672	20,732	940
Development and redevelopment (2)	3,733	3,880	(147)
Revenues related to early lease terminations, net	942	200	742
Total rental revenues	248,631	245,887	2,744
Rental Expenses and Real Estate Taxes			
Same store	57,182	54,158	3,024
2008/2007 acquisitions and dispositions, net	4,931	5,316	(385)
Development and redevelopment (2)	2,396	784	1,612
Total rental expenses and real estate taxes	64,509	60,258	4,251
Property Net Operating Income (1)			
Same store	165,102	166,917	(1,815)
2008/2007 acquisitions and dispositions, net	16,741	15,416	1,325
Development and redevelopment (2)	1,337	3,096	(1,759)
Revenues related to early lease terminations, net	942	200	742
Total property net operating income	184,122	185,629	(1,507)
Other Income			
Institutional capital management and other fees	2,924	2,871	53
Gain on dispositions of real estate assets	255	17,827	(17,572)
Gain on dispositions of non-depreciated real estate	250	12,921	(12,671)
Equity in income (losses) of unconsolidated joint ventures, net	2,267	433	1,834
Interest income and other	1,257	4,666	(3,409)
Total other income	6,953	38,718	(31,765)
Other Expenses			
Real estate related depreciation and amortization	117,211	110,597	6,614
General and administrative expenses	21,799	19,547	2,252
Income taxes	829	1,464	(635)

Interest expense	52,387	60,463	(8,076)
Total other expenses	192,226	192,071	155
Impairment losses	(9,047)		(9,047)
Minority interests from continuing operations and gains on dispositions of real estate	1,814	(4,869)	6,683
Operating income from discontinued operations	153	2,927	(2,774)
Gain on dispositions of real estate interests, net, classified as discontinued operations	21,487	12,125	9,362
Minority interests from discontinued operations	(3,770)	(2,347)	(1,423)
Net income (loss)	$ 9,486	$ 40,112	$ (30,626)

(1) For a discussion as to why we view property net operating income to be an appropriate supplemental performance measure see page 50, above. For a reconciliation of our property net operating income to our reported Income (Loss) From Continuing Operations , see Note 16 to our Consolidated Financial Statements.

(2) For comparative purposes, 2007 operating results of certain properties have been reclassified based on their classification as redevelopment properties as of December 31, 2008.

Rental Revenues

Rental revenues increased by $2.7 million, or 1%, for the year ended December 31, 2008 compared to the same period in 2007, primarily as a result of increased base rent per square foot, offset by slightly lower average occupancy, lower acquisition activity and $2.1 million of net revenue from a lease buyout transaction in 2007 where the rent pursuant to the lease was significantly below the market rate. Same store rental revenues increased by approximately $1.2 million, or 1%, for the year ended December 31, 2008 compared to the same period in 2007, primarily due to increased base rent per square foot and higher tenant recovery income, partially offset by lower straight-line rental revenues. Revenues related to early lease terminations increased by $0.7 million for the year ended December 31, 2008 compared to the same period in 2007.

Rental Expenses and Real Estate Taxes

Rental expenses and real estate taxes increased by approximately $4.3 million, or 7%, for the year ended December 31, 2008 compared to the same period in 2007, primarily as a result of higher property taxes and increased maintenance costs, both of which are generally recoverable from our tenants, partially offset by lower insurance costs. Additionally, we recorded $0.8 million of bad debt expense during the year ended December 31, 2008, primarily related to a tenant bankruptcy, compared to $1.0 million during the same period for 2007. Other non-recoverable expenses increased approximately $1.5 million during the year ended December 31, 2008 compared to the same period in 2007 primarily related to legal expenses. Same store rental expenses and real estate taxes increased by approximately $3.0 million, or 6%, for the year ended December 31, 2008 compared to the same period in 2007, also primarily related to increased higher property taxes and maintenance costs.

Other Income

Other income decreased by approximately $31.8 million for the year ended December 31, 2008 compared to the same period in 2007, primarily as a result of a decrease of approximately $30.2 million in gains related to dispositions of real estate interests reported in continuing operations and by a decrease in interest income of $3.4 million, of which $1.8 million was due to realized gains recorded during 2007 on the settlement of a forward-starting interest rate swap.

Other Expenses

Real estate related depreciation and amortization increased by approximately $6.6 million for the year ended December 31, 2008 as compared to the same period in 2007, primarily due to the reclassification of our held for contribution assets as operating assets. The decrease in interest expense of approximately $8.1 million is primarily attributable to the lower outstanding balance of our financing obligations during the year ended December 31, 2008 compared to the same period in 2007, and decreases in the average LIBOR rate during the year ended December 31, 2008 compared to the same period in 2007. General and administrative expenses increased by approximately $2.3 million, for the year ended December 31, 2008, primarily due to higher compensation costs due to increased headcount and share-based compensation expenses, partially offset by increased capitalization of overhead to various development and leasing activities.

Impairment

During the year ended December 31, 2008, impairment losses of $4.3 million related to real estate assets held for use and impairment losses of $4.7 million on our investments in unconsolidated joint ventures were recorded. No such impairment losses were recorded during 2007.

Minority Interests

Approximately 16% and 18% of our operating partnership was owned by OP unitholders as of December 31, 2008 and 2007, respectively (see Note 9 to our Consolidated Financial Statements for additional information).

Discontinued Operations

During the year ended December 31, 2008, 16 properties were sold for a total gain of $21.5 million compared to five properties sold with a total gain of $12.1 million during the year ended December 31, 2007. Income for the properties included in discontinued operations decreased $2.8 million period over period primarily due to $1.7 million of impairment losses recorded on the assets sold.

Summary of the year ended December 31, 2007 compared to the year ended December 31, 2006

As of December 31, 2007, we consolidated 382 operating properties (15 of which are excluded from continuing operations as they were disposed of as of December 31, 2008), 10 development properties and five redevelopment properties. As of December 31, 2006, we consolidated 379 operating properties (18 of which are excluded from continuing operations as they were disposed of as of December 31, 2008) and three development properties. The average square feet in our continuing operations portfolio for the year ended December 31, 2007 increased by approximately 5.3 million to 51.3 million compared to 53.8 million for the same period in 2006 which contributed to the increase in revenues and operating expenses.

The following table illustrates the changes in our consolidated operating properties in continuing operations by segment as of, and for the years ended, December 31, 2007 compared to December 31, 2006, respectively (dollar amounts in thousands).

	2007		2006	
	Bulk Distribution	Light Industrial and Other	Bulk Distribution	Light Industrial and Other
Operating properties in continuing operations [1]:				
Number of buildings	211	156	213	148
Square feet (in thousands)	43,433	7,858	46,605	7,208
Occupancy at end of period	94.4%	90.4%	93.2%	89.4%
Segment net assets	$ 1,842,711	$ 539,903	$ 2,036,971	$ 511,049
Rental revenues	$ 192,378	$ 51,708	$ 169,492	$ 40,064
Property net operating income [2]	$ 148,251	$ 36,334	$ 133,188	$ 28,546

(1) Includes 19 operating properties held for contribution as of December 31, 2007, which are included in continuing operations as they do not meet the criteria to be classified as held for sale, in accordance with SFAS No. 144. As of December 31, 2006, four properties were classified as held for contribution.

(2) For a discussion as to why we view property net operating income to be an appropriate supplemental performance measure see page 50, above. For a reconciliation of our property net operating income to our reported Income (Loss) From Continuing Operations , see Note 16 to our Consolidated Financial Statements.

Table of Contents

The following table reflects our total assets, net of accumulated depreciation and amortization, by property type segment (in thousands).

	December 31, 2007 [1]	December 31, 2006 [1]
Property type segments:		
Bulk distribution	$ 1,842,711	$ 2,036,971
Light industrial and other	539,903	511,049
Total segment net assets	2,382,614	2,548,020
Development and redevelopment assets	112,847	10,956
Assets held for sale or disposed assets	113,586	164,147
Non-segment assets:		
Properties in pre-development including land held	25,025	30,863
Non-segment cash and cash equivalents	3,316	3,361
Other non-segment assets [2]	141,604	90,877
Total Assets	$ 2,778,992	$ 2,848,224

(1) Reflects reclassifications for properties classified as discontinued operations at December 31, 2008.

(2) Other non-segment assets primarily consists of corporate assets including investments in unconsolidated joint ventures, notes receivable, certain loan costs, including loan costs associated with our financing obligations, and deferred acquisition costs

Table of Contents

Comparison of the year ended December 31, 2007 compared to the year ended December 31, 2006

The following table illustrates the changes in rental revenues, rental expenses and real estate taxes, property net operating income, other income and other expenses for the year ended December 31, 2007 compared to the year ended December 31, 2006. Our same store portfolio includes all operating properties that we owned for the entirety of both the current and prior year reporting periods. The same store portfolio for the periods presented totaled 239 buildings comprised of approximately 35.9 million square feet. A discussion of these changes follows the table (in thousands).

	Year Ended December 31,		
	2007	2006	$ Change
Rental Revenues			
Same store	$ 162,990	$ 159,543	$ 3,447
2007/2006 acquisitions and dispositions, net	76,991	48,242	28,749
Development and redevelopment [2]	1,800	1,499	301
Held for contribution	3,906	567	3,339
Revenues related to early lease terminations, net	200		200
Total rental revenues	245,887	209,851	36,036
Rental Expenses and Real Estate Taxes			
Same store	39,544	36,572	2,972
2007/2006 acquisitions and dispositions, net	19,007	10,514	8,493
Development and redevelopment [2]	758	618	140
Held for contribution	949	187	762
Total rental expenses and real estate taxes	60,258	47,891	12,367
Property Net Operating Income [1]			
Same store	123,446	122,971	475
2007/2006 acquisitions and dispositions, net	57,984	37,728	20,256
Development and redevelopment [2]	1,042	881	161
Held for contribution	2,957	380	2,577
Revenues related to early lease terminations, net	200		200
Total property net operating income	185,629	161,960	23,669
Other Income			
Institutional capital management and other fees	2,871	1,256	1,615
Gain on dispositions of real estate assets	17,827	5,166	12,661
Gain on dispositions of non-depreciated real estate	12,921	4,243	8,678
Equity in income (losses) of unconsolidated joint ventures, net	433	(289)	722
Interest income and other	4,666	5,361	(695)