

FIRST INDUSTRIAL REALTY TRUST INC

Form 10-K

February 28, 2014

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

Form 10-K

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from _____ to _____
Commission File Number 1-13102

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

Maryland 36-3935116
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

311 S. Wacker Drive, 60606
Suite 3900, Chicago, Illinois (Zip Code)
(Address of principal executive offices)

(312) 344-4300
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock
(Title of Class)
New York Stock Exchange
(Name of exchange on which registered)
Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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 Accelerated filer

Non-accelerated filer (Do not check if a 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 Exchange Act). Yes No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant was approximately \$1,637.7 million based on the closing price on the New York Stock Exchange for such stock on June 28, 2013.

At February 27, 2014, 110,003,263 shares of the Registrant's Common Stock, \$0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

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This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "believe," "expect," "intend," "plan," "anticipate," "estimate," "project," "seek," "target," "potential," "focus," "may," "should" or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a materially adverse effect on our operations and future prospects include, but are not limited to: changes in national, international, regional and local economic conditions generally and real estate markets specifically; changes in legislation/regulation (including changes to laws governing the taxation of real estate investment trusts) and actions of regulatory authorities (including the Internal Revenue Service); our ability to qualify and maintain our status as a real estate investment trust; the availability and attractiveness of financing (including both public and private capital) to us and to our potential counterparties; the availability and attractiveness of terms of additional debt repurchases; interest rates; our credit agency ratings; our ability to comply with applicable financial covenants; competition; changes in supply and demand for industrial properties (including land, the supply and demand for which is inherently more volatile than other types of industrial property) in the Company's current and proposed market areas; difficulties in consummating acquisitions and dispositions; risks related to our investments in properties through joint ventures; environmental liabilities; slippages in development or lease-up schedules; tenant creditworthiness; higher-than-expected costs; changes in asset valuations and related impairment charges; changes in general accounting principles, policies and guidelines applicable to real estate investment trusts; international business risks and those additional factors described in Item 1A, "Risk Factors" and in our other filings with the Securities and Exchange Commission (the "SEC"). We caution you not to place undue reliance on forward looking statements, which reflect our analysis only and speak only as of the date of this report or the dates indicated in the statements. We assume no obligation to update or supplement forward-looking statements. Unless the context otherwise requires, the terms "Company," "we," "us" and "our" refer to First Industrial Realty Trust, Inc., First Industrial, L.P. and their respective controlled subsidiaries. We refer to our operating partnership, First Industrial, L.P., as the "Operating Partnership."

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PART I
THE COMPANY

Item 1. Business

General

First Industrial Realty Trust, Inc. is a Maryland corporation organized on August 10, 1993, and is a real estate investment trust ("REIT") as defined in the Internal Revenue Code of 1986 (the "Code"). We are a self-administered and fully integrated real estate company which owns, manages, acquires, sells, develops, and redevelops industrial real estate. As of December 31, 2013, our in-service portfolio consisted of 305 light industrial properties, 94 R&D/flex properties, 154 bulk warehouse properties and 96 regional warehouse properties containing approximately 61.3 million square feet of gross leasable area ("GLA") located in 25 states. Our in-service portfolio includes all properties other than developed, redeveloped and acquired properties that have not yet reached stabilized occupancy (generally defined as properties that are 90% leased). Properties which are at least 75% occupied at acquisition are placed in-service. Acquired properties less than 75% occupied are placed in-service upon the earlier of reaching 90% occupancy or one year from the acquisition date. Development properties are placed in-service upon the earlier of reaching 90% occupancy or one year from the date construction is completed. Redevelopments (generally projects which require capital expenditures exceeding 25% of the gross cost basis) are placed in-service upon the earlier of reaching 90% occupancy or one year from the completion of renovation construction.

Our interests in our properties and land parcels are held through partnerships, corporations, and limited liability companies controlled, directly or indirectly, by the Company, including the Operating Partnership, of which we are the sole general partner with an approximate 96.0% and 95.5% ownership interest at December 31, 2013 and 2012, respectively, and through our taxable REIT subsidiaries. We also conduct operations through other partnerships and limited liability companies, the operating data of which, together with that of the Operating Partnership and the taxable REIT subsidiaries, is consolidated with that of the Company as presented herein.

We also own noncontrolling equity interests in, and provide services to, two joint ventures (the "2003 Net Lease Joint Venture" and the "2007 Europe Joint Venture"; collectively, the "Joint Ventures"). The Joint Ventures are accounted for under the equity method of accounting. Accordingly, the operating data of our Joint Ventures is not consolidated with that of the Company as presented herein. See Note 5 to the Consolidated Financial Statements for more information on the Joint Ventures.

We utilize an operating approach which combines the effectiveness of decentralized, locally based property management, acquisition, sales and development functions with the cost efficiencies of centralized acquisition, sales and development support, capital markets expertise, asset management and fiscal control systems. At February 27, 2014, we had 169 employees.

We maintain a website at www.firstindustrial.com. Information on this website shall not constitute part of this Form 10-K. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available without charge on our website as soon as reasonably practicable after such reports are filed with or furnished to the SEC. You may also read and copy any document filed at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC's Interactive Data Electronic Application via the SEC's home page on the Internet (<http://www.sec.gov>). In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter and Nominating/Corporate Governance Committee Charter, along with supplemental financial and operating information prepared by us, are all available without charge on our website or upon request to us.

Amendments to, or waivers from, our Code of Business Conduct and Ethics that apply to our executive officers or directors will also be posted to our website. We also post or otherwise make available on our website from time to time other information that may be of interest to our investors. Please direct requests as follows:

First Industrial Realty Trust, Inc.
311 S. Wacker Drive, Suite 3900
Chicago, IL 60606

Attention: Investor Relations

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Business Objectives and Growth Plans

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

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

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

Portfolio Enhancement. We continually seek to upgrade our overall portfolio via new investments as well as through the sale of select assets that we believe do not exhibit favorable characteristics for long-term income growth.

Our ability to pursue our long-term growth plans is affected by market conditions and our financial condition and operating capabilities.

Business Strategies

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

Organizational Strategy. We implement our decentralized property operations strategy through the deployment of experienced regional management teams and local property managers. We provide acquisition, development and financing assistance, asset management oversight and financial reporting functions from our headquarters in Chicago, Illinois to support our regional operations. We believe the size of our portfolio enables us to realize operating efficiencies by spreading overhead among many properties and by negotiating purchasing discounts.

Market Strategy. Our market strategy is to concentrate on the top industrial real estate markets in the United States. These markets have one or more of the following characteristics: (i) favorable industrial real estate fundamentals, including improving industrial demand and constrained supply that can lead to long-term rent growth; (ii) warehouse distribution markets with favorable economic and business environments that should benefit from increases in distribution activity driven by growth in global trade and local consumption; and (iii) sufficient size to provide ample opportunity for growth through incremental investments as well as offer asset liquidity.

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

Acquisition/Development Strategy. Our acquisition/development strategy is to invest in industrial properties in the top industrial real estate markets in the United States.

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

Financing Strategy. To finance acquisitions, developments and debt maturities, as market conditions permit, we utilize a portion of proceeds from property sales, unsecured debt offerings, term loans, mortgage financings and line of credit borrowings under our \$625.0 million unsecured credit facility (the "Unsecured Credit Facility"), and proceeds from the issuance, when and as warranted, of additional equity securities (see Recent Developments). As of February 27, 2014, we had approximately \$604.0 million available for additional borrowings under the Unsecured Credit Facility.

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Recent Developments

During the year ended December 31, 2013, we acquired two industrial properties comprising approximately 1.1 million square feet of GLA and several land parcels for an aggregate purchase price of approximately \$72.8 million, excluding costs incurred in conjunction with the acquisitions. Additionally, we placed in-service one development totaling approximately 0.3 million square feet of GLA for a total cost of \$19.1 million. We also sold 67 industrial properties comprising approximately 3.0 million square feet of GLA and several land parcels for total gross sales proceeds of \$144.6 million. At December 31, 2013, we owned 649 in-service industrial properties containing approximately 61.3 million square feet of GLA.

During the year ended December 31, 2013, we amended and restated our existing \$450.0 million revolving credit facility (the "Old Credit Facility"), increasing the borrowing capacity to \$625.0 million. We may request that the borrowing capacity under the Unsecured Credit Facility be increased to \$825.0 million, subject to certain restrictions. The amendment extended the maturity date from December 12, 2014 to September 29, 2017 with an option to extend an additional one year at our election, subject to certain restrictions. At December 31, 2013, the Unsecured Credit Facility provides for interest only payments at LIBOR plus 150 basis points. The interest rate on the Unsecured Credit Facility varies based on our leverage ratio. In the event we achieve an investment grade rating from one of certain rating agencies, the rate may be decreased at our election, based on the investment grade rating. In connection with the amendment of the Old Credit Facility, we wrote off \$0.1 million of unamortized deferred financing costs, which is included in loss from retirement of debt for the year ended December 31, 2013.

During the year ended December 31, 2013, we repurchased and retired prior to maturity \$29.8 million of our senior unsecured notes and \$72.3 million in mortgage loans payable. We recognized a loss from retirement of debt on our Consolidated Statement of Operations of \$6.6 million.

During the year ended December 31, 2013, we redeemed the remaining 4,000,000 Depositary Shares, each representing 1/10,000th of a share, of our 7.25% Series J Cumulative Redeemable Preferred Stock, \$0.01 par value (the "Series J Preferred Stock"), at a redemption price of \$25.00 per Depositary Share. We also redeemed all of the 2,000,000 Depositary Shares, each representing 1/10,000th of a share of our 7.25% Series K Cumulative Redeemable Preferred Stock, \$0.01 par value (the "Series K Preferred Stock"), at a redemption price of \$25.00 per Depositary Share.

During the year ended December 31, 2013, we issued 8,400,000 shares of the Company's common stock, generating \$132.1 million in net proceeds, in an underwritten public offering. Additionally, during the year ended December 31, 2013, we issued 2,315,704 shares of the Company's common stock, generating \$41.7 million in net proceeds, under the Company's "at-the-market" equity offering program (the "2012 ATM").

Future Property Acquisitions, Developments and Property Sales

We have acquisition and development programs through which we seek to identify portfolio and individual industrial property acquisitions and developments. We also sell properties based on market conditions and property related factors. As a result, we are currently engaged in negotiations relating to the possible acquisition, development or sale of certain industrial properties in our portfolio.

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

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INDUSTRY

Industrial properties are typically used for the design, assembly, packaging, storage and distribution of goods and/or the provision of services. As a result, the demand for industrial space in the United States is related to the level of economic output. For the five years ended December 31, 2013, the national occupancy rate for industrial properties in the United States has ranged from 85.5%* to 88.7%*, with an occupancy rate of 88.7%* at December 31, 2013.

* Source: CBRE Econometric Advisors

Item 1A. Risk Factors

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

Disruptions in the financial markets could affect our ability to obtain financing and may negatively impact our liquidity, financial condition and operating results.

From time to time, the capital and credit markets in the United States and other countries experience significant price volatility, dislocations and liquidity disruptions, which can cause the market prices of many securities and the spreads on prospective debt financings to fluctuate substantially. These circumstances can materially impact liquidity in the financial markets, making terms for certain financings less attractive, and in some cases result in the unavailability of financing. A significant amount of our existing indebtedness was issued through capital markets transactions. We anticipate that the capital markets could be a source of refinancing of our existing indebtedness in the future. This source of refinancing may not be available if capital market volatility and disruption occurs. Furthermore, we could potentially lose access to available liquidity under our Unsecured Credit Facility if one or more participating lenders were to default on their commitments. If our ability to issue additional debt or equity securities to finance future acquisitions, developments and redevelopments and joint venture activities or to borrow money under our Unsecured Credit Facility were to be impaired by capital market volatility and disruption, it could have a material adverse effect on our liquidity and financial condition.

In addition, capital and credit market price volatility could make the valuation of our properties more difficult. There may be significant uncertainty in the valuation, or in the stability of the value, of our properties that could result in a substantial decrease in the value of our properties. As a result, we may not be able to recover the carrying amount of our properties, which may require us to recognize an impairment loss in earnings.

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

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

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

These factors may be amplified in light of a disruption of the global credit markets. Our investments in real estate assets are concentrated in the industrial sector, and the demand for industrial space in the United States is related to the level of economic output. Accordingly, reduced economic output may lead to lower occupancy rates for our properties. In addition, if

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any of our tenants experiences a downturn in its business that weakens its financial condition, delays lease commencement, fails to make rental payments when due, becomes insolvent or declares bankruptcy, the result could be a termination of the tenant's lease, which could adversely affect our cash flow from operations.

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

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

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

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

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

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

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

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

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

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

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

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

We acquire and intend to continue to acquire primarily industrial properties. The acquisition of properties entails various risks, including the risks that our investments may not perform as expected and that our cost estimates for bringing an acquired property up to market standards may prove inaccurate. Further, we face significant competition for attractive investment opportunities from other well-capitalized real estate investors, including publicly-traded REITs and private investors. This competition increases as investments in real estate become attractive relative to other forms of investment. As a result of competition, we may be unable to acquire additional properties as we desire

or the purchase prices may be elevated. In addition, we expect to finance future acquisitions through a combination of borrowings under the Unsecured Credit Facility, proceeds from equity or debt offerings and debt originations by the Company and proceeds from property sales, which may not

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be available and which could adversely affect our cash flow. Any of the above risks could adversely affect our financial condition, results of operations, cash flow and ability to pay dividends on, and the market value of, our common stock.

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

We are subject to the risks that, upon expiration, leases may not be renewed, the space subject to such leases may not be relet or the terms of renewal or reletting, including the cost of required renovations, may be less favorable than expiring lease terms. If we were unable to promptly renew a significant number of expiring leases or to promptly relet the space covered by such leases, or if the rental rates upon renewal or reletting were significantly lower than the current rates, our financial condition, results of operation, cash flow and ability to pay dividends on, and the market price of, our common stock could be adversely affected. As of December 31, 2013, leases with respect to approximately 7.1 million, 9.0 million and 10.3 million square feet of our total GLA, representing 13%, 16% and 18% of our total GLA, expire in 2014, 2015 and 2016, respectively.

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

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

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

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

As part of our business, we sell properties to third parties as opportunities arise. Under the Code, a 100% penalty tax could be assessed on the gain resulting from sales of properties that are deemed to be prohibited transactions. The question of what constitutes a prohibited transaction is based on the facts and circumstances surrounding each transaction. The Internal Revenue Service ("IRS") could contend that certain sales of properties by us are prohibited transactions. While we have implemented controls to avoid prohibited transactions, if a dispute were to arise that was successfully argued by the IRS, the 100% penalty tax could be assessed against the profits from these transactions. In addition, any income from a prohibited transaction may adversely affect our ability to satisfy the income tests for qualification as a REIT.

The REIT distribution requirements may limit the Company's ability to retain capital and require the Company to turn to external financing sources.

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

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

Where possible, we intend to continue to use leverage to increase the rate of return on our investments and to allow us to make more investments than we otherwise could. Our use of leverage presents an additional element of risk in the event that the cash flow from our properties is insufficient to meet both debt payment obligations and the distribution

requirements of the REIT provisions of the Code. In addition, rising interest rates would reduce our cash flow by increasing the amount of interest due on our floating rate debt and on our fixed rate debt as it matures and is refinanced.

Failure to comply with covenants in our debt agreements could adversely affect our financial condition.

The terms of our agreements governing our Unsecured Credit Facility and other indebtedness require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining

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insurance coverage. Complying with such covenants may limit our operational flexibility. Our failure to comply with these covenants could cause a default under the applicable debt agreement even if we have satisfied our payment obligations. Consistent with our prior practice, we will, in the future, continue to interpret and certify our performance under these covenants in a good faith manner that we deem reasonable and appropriate. However, these financial covenants are complex and there can be no assurance that these provisions would not be interpreted by the noteholders or lenders in a manner that could impose and cause us to incur material costs. We anticipate that we will be able to operate in compliance with our financial covenants in 2014. Our ability to meet our financial covenants may be adversely affected if economic and credit market conditions limit our ability to reduce our debt levels consistent with, or result in net operating income below, our current expectations. Under our Unsecured Credit Facility, an event of default can also occur if the lenders, in their good faith judgment, determine that a material adverse change has occurred which could prevent timely repayment or materially impair our ability to perform our obligations under the loan agreement.

Upon the occurrence of an event of default, we would be subject to higher finance costs and fees, and the lenders under our Unsecured Credit Facility will not be required to lend any additional amounts to us. In addition, our outstanding senior unsecured notes as well as all outstanding borrowings under the Unsecured Credit Facility, together with accrued and unpaid interest and fees, could be accelerated and declared to be immediately due and payable. Furthermore, our Unsecured Credit Facility and the indentures governing our senior unsecured notes contain 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 Unsecured Credit Facility and the senior unsecured notes or other debt that is in default, which could adversely affect our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of, our stock. If repayment of any of our borrowings is accelerated, we cannot provide assurance that we will have sufficient assets to repay such indebtedness or that we would be able to borrow sufficient funds to refinance such indebtedness. Even if we are able to obtain new financing, it may not be on commercially reasonable terms, or terms that are acceptable to us.

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

We may obtain additional mortgage debt financing in the future, if it is available to us. These mortgages may be issued on a recourse, non-recourse or cross-collateralized basis. Cross-collateralization makes all of the subject properties available to the lender in order to satisfy our debt. Holders of this indebtedness will have a claim against these properties. To the extent indebtedness is cross-collateralized, lenders may seek to foreclose upon properties that are not the primary collateral for their loan, which may, in turn, result in acceleration of other indebtedness collateralized by properties. Foreclosure of properties would result in a loss of income and asset value to us, making it difficult for us to meet both debt payment obligations and the distribution requirements of the REIT provisions of the Code. At December 31, 2013, mortgage loans payable totaling \$474.5 million were cross-collateralized.

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

We are required to make the following lump-sum or "balloon" payments under the terms of some of our indebtedness, including indebtedness of the Operating Partnership. Our lump-sum payments as of December 31, 2013 consist of the following:

\$10.6 million aggregate principal amount of 7.750% Notes due 2032 (the "2032 Notes");

\$31.9 million aggregate principal amount of 7.600% Notes due 2028 (the "2028 Notes");

\$6.1 million aggregate principal amount of 7.150% Notes due 2027 (the "2027 Notes");

\$101.9 million aggregate principal amount of 5.950% Notes due 2017 (the "2017 II Notes");

\$55.0 million aggregate principal amount of 7.500% Notes due 2017 (the "2017 Notes");

\$159.7 million aggregate principal amount of 5.750% Notes due 2016 (the "2016 Notes");

\$81.8 million aggregate principal amount of 6.420% Notes due 2014 (the "2014 Notes");

\$599.5 million in mortgage loans payable, in the aggregate, due between October 2014 and September 2022 on certain of our mortgage loans payable; and

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a \$625.0 million Unsecured Credit Facility maturing September 29, 2017, under which we may borrow to finance the acquisition of additional properties, fund developments and for other corporate purposes, including working capital. The Unsecured Credit Facility contains a one year extension option at our election, subject to certain restrictions.

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As of December 31, 2013, \$173.0 million was outstanding under the Unsecured Credit Facility at a weighted average interest rate of 1.666%.

Our ability to make required payments of principal on outstanding indebtedness, whether at maturity or otherwise, may depend on our ability either to refinance the applicable indebtedness or to sell properties. We have no commitments to refinance the 2014 Notes, the 2016 Notes, the 2017 Notes, the 2017 II Notes, the 2027 Notes, the 2028 Notes, the 2032 Notes, the Unsecured Credit Facility or the mortgage loans. Our existing mortgage loan obligations are collateralized by our properties and therefore such obligations will permit the lender to foreclose on those properties in the event of a default.

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

As of December 31, 2013, our ratio of debt to our total market capitalization was 38.5%. We compute the percentage by calculating our total consolidated debt as a percentage of the aggregate market value of all outstanding shares of our common stock, assuming the exchange of all limited partnership units of the Operating Partnership for common stock, plus the aggregate stated value of all outstanding shares of preferred stock and total consolidated debt. Our organizational documents do not contain any limitation on the amount or percentage of indebtedness we may incur. Accordingly, we could become more highly leveraged, resulting in an increase in debt service that could adversely affect our ability to make expected distributions to stockholders and an increased risk of default on our obligations. Rising interest rates on the Company's Unsecured Credit Facility could decrease the Company's available cash. Our Unsecured Credit Facility bears interest at a floating rate. As of December 31, 2013, our Unsecured Credit Facility had an outstanding balance of \$173.0 million at a weighted average interest rate of 1.666%. At December 31, 2013, our Unsecured Credit Facility provides for interest only payments at LIBOR plus 150 basis points which rate varies based on our leverage ratio. Based on the outstanding balance on our Unsecured Credit Facility as of December 31, 2013, a 10% increase in interest rates would increase interest expense by \$0.3 million on an annual basis. Increases in the interest rate payable on balances outstanding under our Unsecured Credit Facility would decrease our cash available for distribution to stockholders.

The Company's mortgages may impact the Company's ability to sell encumbered properties on advantageous terms or at all.

As part of our plan to enhance liquidity and pay down our debt, we have originated numerous mortgage financings and from time to time engage in active discussions with various lenders regarding the origination of additional mortgage financings. Certain of our mortgages contain, and it is anticipated that some future mortgages will contain, substantial prepayment premiums which we would have to pay upon the sale of a property, thereby reducing the net proceeds to us from the sale of any such property. As a result, our willingness to sell certain properties and the price at which we may desire to sell a property may be impacted by the terms of any mortgage financing encumbering a property. If we are unable to sell properties on favorable terms or redeploy the proceeds of property sales in accordance with our business strategy, then our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of, our common stock could be adversely affected.

Adverse market and economic conditions could cause us to recognize additional impairment charges.

We regularly review our real estate assets for impairment indicators, such as a decline in a property's occupancy rate, decline in general market conditions or a change in the expected hold period of an asset. If we determine that indicators of impairment are present, we review the properties affected by these indicators to determine whether an impairment charge is required. We use considerable judgment in making determinations about impairments, from analyzing whether there are indicators of impairment to the assumptions used in calculating the fair value of the investment. Accordingly, our subjective estimates and evaluations may not be accurate, and such estimates and evaluations are subject to change or revision.

From time to time, adverse market and economic conditions and market volatility make it difficult to value the real estate assets owned by us as well as the value of our interests in unconsolidated joint ventures. There may be significant uncertainty in the valuation, or in the stability of the cash flows, discount rates and other factors related to such assets due to the adverse market and economic conditions that could result in a substantial decrease in their value. We may be required to recognize additional asset impairment charges in the future, which could materially and

adversely affect our business, financial condition and results of operations.

Earnings and cash dividends, asset value and market interest rates affect the price of the Company's common stock. As a REIT, the market value of our common stock, in general, is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash dividends. The market value of our common stock is

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also based upon the market value of our underlying real estate assets. For this reason, shares of our common stock may trade at prices that are higher or lower than our net asset value per share. To the extent that we retain operating cash flow for investment purposes, working capital reserves, or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our common stock. Our failure to meet the market's expectations with regard to future earnings and cash dividends likely would adversely affect the market price of our common stock. Further, the distribution yield on the common stock (as a percentage of the price of the common stock) relative to market interest rates may also influence the price of our common stock. An increase in market interest rates might lead prospective purchasers of our common stock to expect a higher distribution yield, which would adversely affect the market price of our common stock.

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

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

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

The Company is subject to risks and liabilities in connection with its investments in properties through Joint Ventures. As of December 31, 2013, the 2003 Net Lease Joint Venture owned approximately 2.5 million square feet of properties. Our net investment in this Joint Venture was \$0.9 million at December 31, 2013. Our organizational documents do not limit the amount of available funds that we may invest in joint ventures and we may continue to develop and acquire properties through joint ventures with other persons or entities when warranted by the circumstances. Joint venture investments, in general, involve certain risks, including:

- joint venturers may share certain approval rights over major decisions;
- joint venturers might fail to fund their share of any required capital commitments;
- joint venturers might have economic or other business interests or goals that are inconsistent with our business interests or goals that would affect our ability to operate the property;
- joint venturers may have the power to act contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a real estate investment trust;
- the joint venture agreements often restrict the transfer of a member's or joint venturer's interest or "buy-sell" or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;

- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and subject the properties owned by the applicable joint venture to additional risk; and
- we may in certain circumstances be liable for the actions of our joint venturers.

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

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

We are subject to risks associated with our international operations.

As of December 31, 2013, we owned one land parcel located in Canada. Our international operations will be subject to risks inherent in doing business abroad, including:

- exposure to the economic fluctuations in the locations in which we invest;
- difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations; revisions in tax treaties or other laws and regulations, including those governing the taxation of our international revenues;
- obstacles to the repatriation of earnings and funds;
 - currency exchange rate fluctuations between the United States dollar and foreign currencies;
- restrictions on the transfer of funds; and
- national, regional and local political uncertainty.

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

Adverse changes in our credit ratings could negatively affect our liquidity and business operations.

The credit ratings of the Operating Partnership's senior unsecured notes and the Company's preferred stock are based on the Company's operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analyses. Our credit ratings can affect the availability, terms and pricing of any indebtedness and preferred stock that we may incur going forward. There can be no assurance that we will be able to maintain any credit rating, and in the event any credit rating is downgraded, we could incur higher borrowing costs or be unable to access certain capital markets at all.

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 the price of our securities, or otherwise materially adversely affect our business, reputation, results of operations, financial condition or liquidity.

Item 1B. Unresolved SEC Comments

None.

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Item 2. Properties

General

At December 31, 2013, we owned 649 in-service industrial properties containing an aggregate of approximately 61.3 million square feet of GLA in 25 states, with a diverse base of more than 1,800 tenants engaged in a wide variety of businesses, including manufacturing, retail, wholesale trade, distribution and professional services. The average annual rent per square foot on a portfolio basis, calculated at December 31, 2013, was \$4.54. The properties are generally located in business parks that have convenient access to interstate highways and/or rail and air transportation. We maintain insurance on our properties that we believe is adequate.

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

The following describes, generally, the different industrial categories:

• Light industrial properties are of less than 100,000 square feet, have a ceiling height of 16-21 feet, are comprised of 5%-50% of office space and contain less than 50% of manufacturing space;

• R&D/flex buildings are of less than 100,000 square feet, have a ceiling height of less than 16 feet, are comprised of 50% or more of office space and contain less than 25% of manufacturing space;

• Bulk warehouse buildings are of more than 100,000 square feet, have a ceiling height of at least 22 feet, are comprised of 5%-15% of office space and contain less than 25% of manufacturing space; and

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

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The following tables summarize certain information as of December 31, 2013, with respect to the in-service properties, each of which is wholly owned.

In-Service Property Summary Totals

Metropolitan Area	Light Industrial	R&D/Flex		Bulk Warehouse		Regional Warehouse		Total		
	GLA	Number of Properties	GLA	Number of Properties	GLA	Number of Properties	GLA	Number of Properties	GLA	Number of Properties
Atlanta, GA	622,944	11	174,350	4	3,820,667	14	923,807	7	5,541,768	36
Baltimore, MD	768,536	13	253,070	7	586,647	3	96,000	1	1,704,253	24
Central PA	297,790	6	—	—	4,113,585	9	381,719	4	4,793,094	19
Chicago, IL	689,606	10	197,997	3	3,592,679	15	424,851	5	4,905,133	33
Cincinnati, OH	278,000	5	100,000	2	918,250	3	763,069	5	2,059,319	15
Cleveland, OH	—	—	—	—	1,317,799	7	—	—	1,317,799	7
Dallas, TX	1,996,261	35	209,249	9	2,148,315	16	501,873	7	4,855,698	67
Denver, CO	1,148,368	26	369,949	10	399,754	3	756,685	7	2,674,756	46
Detroit, MI	2,171,855	78	188,263	6	658,927	5	550,089	13	3,569,134	102
Houston, TX	585,349	9	132,997	6	2,457,546	11	446,318	6	3,622,210	32
Indianapolis, IN	861,100	18	25,000	2	2,176,994	7	503,177	6	3,566,271	33
Miami, FL	88,820	1	—	—	142,804	1	281,626	6	513,250	8
Milwaukee, WI	343,726	7	55,940	1	1,126,929	6	90,089	1	1,616,684	15
Minneapolis/St. Paul, MN	969,796	14	265,565	3	2,972,995	13	201,173	3	4,409,529	33
Nashville, TN	163,852	2	—	—	1,249,288	5	—	—	1,413,140	7
Northern New Jersey	749,849	13	171,601	3	329,593	2	—	—	1,251,043	18
Philadelphia, PA	186,641	6	11,256	1	690,599	2	330,334	4	1,218,830	13
Phoenix, AZ	38,560	1	—	—	710,403	5	354,327	5	1,103,290	11
Salt Lake City, UT	190,620	6	146,937	6	279,179	1	122,900	1	739,636	14
Seattle, WA	—	—	—	—	258,126	2	127,399	2	385,525	4
Southern California(a)	772,878	21	88,064	1	2,016,153	8	639,087	10	3,516,182	40
Southern New Jersey	115,626	2	45,054	1	172,100	1	191,329	2	524,109	6
St. Louis, MO	631,732	9	191,923	2	1,613,095	6	—	—	2,436,750	17
Tampa, FL	234,679	7	689,782	27	209,500	1	—	—	1,133,961	35
Other(b)	201,997	5	—	—	2,096,108	8	88,498	1	2,386,603	14
Total	14,108,585	305	3,316,997	94	36,058,035	154	7,774,350	96	61,257,967	649
Occupancy by Industrial Building Type		88 %		85 %		95 %		95 %		93 %

(a) Southern California includes the markets of Los Angeles, Inland Empire and San Diego.

Properties are located in Grand Rapids, MI, Austin, TX, Orlando, FL, Horn Lake, MS, Kansas City, MO,

(b) San Antonio, TX, Birmingham, AL, Jefferson County, KY, Greenville, KY, Des Moines, IA, Fort Smith, AR and Winchester, VA.

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In-Service Property Summary Totals

Metropolitan Area	GLA	Number of Properties	Average Occupancy at 12/31/13	GLA as a % of Total Portfolio	Encumbrances at 12/31/13 (In 000s)(c)
Atlanta, GA	5,541,768	36	89	% 9.0	% \$36,196
Baltimore, MD	1,704,253	24	90	% 2.8	% 9,737
Central PA	4,793,094	19	94	% 7.9	% 57,253
Chicago, IL	4,905,133	33	96	% 8.0	% 40,112
Cincinnati, OH	2,059,319	15	91	% 3.4	% 13,588
Cleveland, OH	1,317,799	7	100	% 2.2	% 25,921
Dallas, TX	4,855,698	67	94	% 7.9	% 57,673
Denver, CO	2,674,756	46	94	% 4.4	% 28,799
Detroit, MI	3,569,134	102	95	% 5.8	% —
Houston, TX	3,622,210	32	99	% 5.9	% 56,205
Indianapolis, IN	3,566,271	33	93	% 5.8	% 20,050
Miami, FL	513,250	8	79	% 0.8	% —
Milwaukee, WI	1,616,684	15	97	% 2.6	% 20,795
Minneapolis/St. Paul, MN	4,409,529	33			