

U.S. Industrial REITs: April '08 Update ***Is Asset Management the Holy Grail?***

April 5, 2008 ■ DJIA 12,609 ■ RMZ 930

HIGHLIGHTS

The Magic Slipper Fell Off: U.S. industrial REITs enjoyed fantastic total returns in 2007, outperforming the RMS and every other property sector by a wide margin. But the group lost its magic slipper when the clock struck midnight on December 31st and returns have lagged materially so far in 2008. Concerns about many aspects of the industrial business model have been mounting. Leasing fundamentals in the U.S. are softening and development profitability is likely to decline as cap rates inch up. However, fundamentals may not plunge as deeply as in previous downturns. High construction costs and low debt financing availability should limit new supply and the downside scenario from diminished demand. At the REIT level, well-capitalized entities might fare reasonably well in capturing the spoils of a tough credit environment while the asset management business introduces an additional source of financing.

U.S. Fundamentals Decline: Industrial demand drivers have softened. Retail consumption and the reconfiguration of the supply chain are the main drivers of the industrial warehouse business. With the economy in, or close to, a recession; retailers posting lackluster sales; and West Coast ports (the main entry point for Asian goods) showing a marked slowdown in activity, demand for U.S. warehouse space is likely to decline in '08. Vacancy across the U.S. rose for the first time in four years during 4Q07, while rent growth decelerated. With new starts reaching a peak in late-'07, the first half of '08 should see a continued decline in industrial fundamentals.

Asset Management: The Holy Grail? The largest industrial REITs have established impressive asset management businesses. On average, 57% of controlled assets are held in institutional JVs, with AMB and PLD leading the way at 60%. The value of the fee stream generally comprises 5-7% of the NAV of each REIT, with the bulk being accounted by (stable) ongoing fees, rather than (unpredictable) incentive fees. We have revised the methodology used in valuing ongoing fee income. More precise fee segmentation and the use of a lower multiple have resulted in a material decrease (~45%) in the value of ongoing fee income in the NAV estimates (representing a 3% average decrease in overall NAVs). The strong future growth in fee income is not explicitly valued in the NAV. But the business has ample strategic merits that go well beyond the value of the fees currently generated. Co-investment funds reduce development risks (by providing a known exit) and are a source of relatively inexpensive (and, more importantly, available) capital. The strategic benefits of the business are even more relevant when capital is scarce. As such, the premium to NAV at which industrial REITs should trade has increased over the last several years to account for the growth prospects and strategic benefits of the business.

Can Merchant-Building Thrive in an Economic Downturn? Industrial REITs now have 20% of their assets under development, an all-time high. More staggering is that the companies expect to grow their development pipelines going forward. For this forecast to be attainable, one either has to believe that obsolescence is particularly high in the sector (especially outside of the U.S.) or that users of warehouse space are impervious to the economic climate. The former has been, and could remain, a significant driver of demand for developers, especially outside of the U.S. In addition, well-capitalized REITs could increase their market share of development now that local/regional developers have lost access to copious amounts of debt financing. REITs invested outside of the U.S. are also betting that the economic climate will be better in those locations. While it may be true on a relative basis, the economies of Europe and Japan (the two main global markets) are decelerating. Low-double-digit development profit margins should soon be reality after two years of excess returns fueled by cap rate compression.

Development Values are Down: Allocating capital to development still appears a value-enhancing proposition for industrial REITs, especially outside of the U.S. In addition, development is a key growth driver of assets under management in JVs. The ready pools of capital provide an exit strategy and enhance the economic benefits of development via the fee stream generated once the assets are contributed to JVs. Nonetheless, development is no longer the "no-brainer" investment that it was only six months ago. We herein revise the development valuation approach used in our NAV estimates in order to capture the risks associated with development in a more systematic manner. This contrasts with a previous approach that was more lenient on the risks taken to achieve a given level of capital growth, and thus rewarded companies for projects that occasionally failed to meet their costs of capital. The new methodology lowers NAV estimates by an average of 2%.

Recommendations: At current prices, our recommendations are unchanged:

BUY: PLD
HOLD: AMB, DCT
SELL: FR

PROJECTIONS:

	Average Cap Rate	Implied Cap Rate	Premium to Asset Value	Premium to NAV	Dividend Coverage	Leverage Ratio
Industrial-REIT Average	6.2%	5.4%	7.6%	16.3%	81%	51%
REIT Average*	6.3%	6.3%	-1.2%	-3.0%	119%	46%

*All averages are market-cap weighted as of 4/3/08. REIT average excludes lodging companies.

Important disclosure on the last page.

Industrial REITs: 4Q07 Update
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I. Industrial Returns Have Lost Their Magic:

U.S. Industrial REITs experienced an idyllic year in 2007 as the group outperformed all other sectors and the RMS by 1,610 basis points. But when midnight struck on December 31st, the industrial carriage turned into a pumpkin and the glass slipper was lost in the shuffle. So far in '08, the industrial sector has underperformed all other property sectors, while trailing the RMS by 850 basis points. Reversion to the mean, concerns about bulging development pipelines, and slowing fundamentals in the U.S. likely all contributed to the underperformance.

The industrial business models are more complex than those of companies in other property sectors. Assessing whether these REITs will be more or less impacted by an environment of low liquidity and declining business fundamentals requires juggling several balls and the formulation of assumptions on several aspects of the global real estate industry. In past *Update* reports, we have analyzed merchant-building activities ([Is Merchant-Building Thriving or About to Fall Off a Cliff?](#)) and same-property NOI growth ([NOI Growth: Not Sexy Like Merchant-Building, but it Matters Too](#)). Development economics have declined in recent months and we herein reduce the value granted to in-process development projects in the NAV estimates (see page 10; NAVs have been reduced by 2% due to this change). Same-property NOI growth estimates are also herein lowered (see page 12) by an average of 45 basis points for the next three years to roughly 2.5%. Our '08 same-property NOI growth expectations are now at the low-end or below managements' guidance.

Another key component of the industrial REIT business is the central role played by co-investment funds. The REITs have assembled large, and growing, asset management businesses that serve multiple functions and enhance total returns to shareholders from real estate ownership. This report evaluates the role of the asset management platform for industrial REITs.

II. Asset Management: The Holy Grail?

The industrial REITs own a stake in 37 co-investment funds with more than \$33 billion under management, representing 57% of all controlled real estate. What was once a collection of disparate opportunistic partnerships has now turned into structured businesses that drive asset growth and enable capital recycling, primarily for development projects. The REITs often own a 10-20% equity interest in their co-investment funds, and control management and investment decisions. For these services, the REITs receive a variety of fees. The bulk of assets are owned in "core" funds which acquire stabilized properties, either from a REIT's development pipeline or from third-parties. A few co-investment funds have development mandates. AMB and FR both run such ventures.

The growth of the business in recent years has likely been equally due to structural drivers – pension plans seeking to own more real estate – and the REIT's ability to offer capable industrial asset management and access to new properties in large quantity. While an investment in a REIT would likely provide much better returns to pension funds, institu-

Exhibit 1

Industrial REITs have underperformed the NAREIT average so far in '08 after being one of the leading sectors in '07. Concerns about development margins and weakening macroeconomic fundamentals have weighed on the sector's total returns in recent months.

Total Returns by Sector (Sorted by YTD '08 returns)

Sector Name used by Graph	2002	2003	2004	2005	2006	2007	YTD through 4/3/08	CAGR (1)
Self Storage	0.6%	38.1%	29.7%	26.6%	41.0%	-24.8%	26.0%	32.4%
Apartments	-6.1%	25.5%	34.7%	14.6%	40.0%	-25.4%	19.4%	21.1%
Retail	21.1%	46.8%	40.2%	11.8%	29.0%	-15.8%	12.2%	30.4%
Manufactured Homes	-4.1%	30.0%	6.4%	-2.6%	15.3%	-19.3%	10.9%	10.6%
NAREIT Equity REIT Index	3.8%	37.1%	31.6%	12.2%	35.1%	-15.7%	9.1%	22.3%
Health Care	4.8%	53.6%	21.0%	1.8%	44.6%	2.1%	8.7%	28.2%
Diversified	4.2%	40.3%	32.4%	9.9%	38.0%	-22.3%	8.2%	22.6%
Office	-6.8%	34.0%	23.3%	13.1%	45.2%	-19.0%	4.5%	18.0%
Industrial	17.3%	33.1%	34.1%	15.4%	28.9%	0.4%	0.7%	21.4%
Lodging/Resorts	-1.5%	31.7%	32.7%	9.8%	28.2%	-22.4%	0.0%	13.5%
Specialty	-5.4%	38.6%	26.9%	10.4%	23.6%	14.6%	-3.9%	14.6%

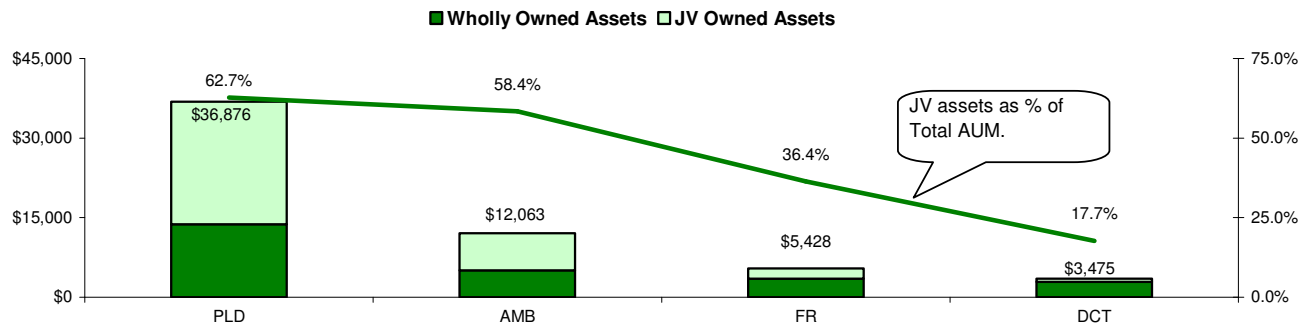
Source: NAREIT as of 4/3/08.

(1) Compounded annual growth rate

Exhibit 2

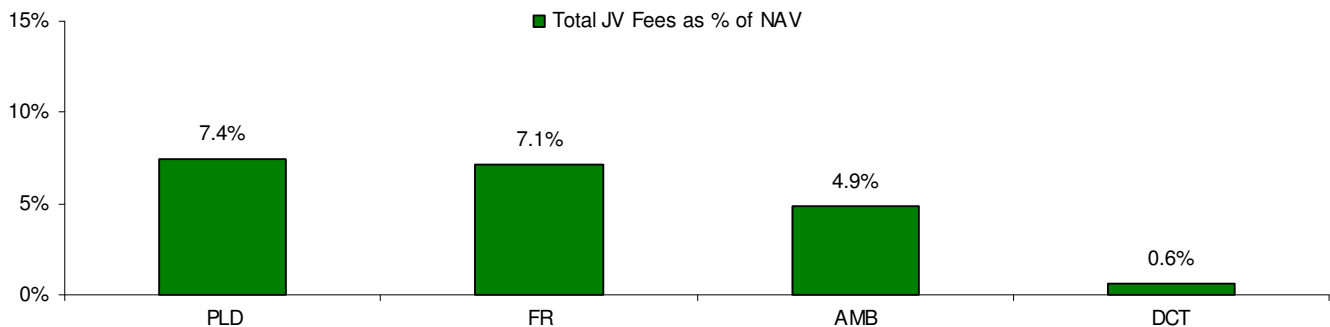
Assets Under Management are Large but Account for a Small Portion of the NAV

Industrial REITs have created some of the most sizable and geographically-diversified asset management platforms in the REIT world. Growth has been spectacular for a number of years and could continue briskly in '08 due to the capital already raised and the bulky development pipelines that serve as the main source of new assets for most institutional joint ventures (JVs).



Source: Company disclosure and Green Street Advisors.

The fee income generated by the JVs comprises a relatively small portion of NAV estimates for the industrial REITs. The importance of the fee business is likely to grow over time as the asset management model is one of the key strategic drivers for industrial REITs.



Source: Company disclosure and Green Street Advisors.

tional investors seem enamored enough with direct real estate ownership to pay the fees required to make the asset management business highly value adding for the REITs.

For the major industrial REITs, the asset management business is a key strategic driver. Co-investment funds provide a low-cost source of capital, expand market shares, and enhance returns on real estate investments. When leveraged with fees, the economics of real estate investment can be particularly appealing. Economics 101 teaches that excess profits can not be sustainable for long periods of time. So far, the JV economics have remained favorable to the REITs. The world of private equity has demonstrated that institutional investors will pay for partnering with the most talented operators. **REITs certainly rank high among asset managers due to the depth of their**

customer relationships. As a result of their broad global platforms and talented organizations, the U.S. REITs are likely to attract a disproportionate share of institutional capital going forward.

A. The Benefits of an Asset Management Platform:

- **Low-Cost Capital Partners:** Institutional investors have a relatively low cost of capital and, therefore, accept lower returns. As such, they are logical owners of stabilized industrial real estate, an asset class with limited growth potential. Leveraging REIT management skills with the low cost of capital of partners is a positive combination for both groups. From the REIT's perspective, the capital can serve to extend platforms (see below) or mitigate risks on large

transactions. For instance, in mid-'07, PLD formed a venture specifically to buy a large U.S. portfolio as it worried about rising valuations and needed to keep balance sheet capital for its growing development pipeline. The decision proved prescient – unfortunately because real estate values have clearly declined since then.

- **Market Control:** Co-investment funds give control of the real estate and tenant relationships to the REITs. As such, **REITs can maintain significant customer footprints with relatively little capital.** The benefit is visible in the development business as a measurable percentage of leases are inked to “repeat customers” – tenants in buildings owned in JVs and that seek expansion. By harnessing the cost of capital advantage of institutional investors, REITs can greatly expand the real estate under their control. In some cases, the capital is used to establish a foreign platform (PLD in Japan or FR in Europe and Canada). The expanded market shares are a significant strategic benefit to the REITs.
- **Pre-Committed Capital:** JVs are pre-committed pools of capital. In an environment where raising any type of capital is challenging, these pre-negotiated agreements are an important funding mechanism. The co-investment funds are often take-out vehicles for development pipelines. From the REIT’s perspective, a dedicated take-out source is of prime importance as it monetizes current projects and provides funds for future development. This is even more beneficial in a market where many competitors are hampered in their investment activities for fault of financing. The co-investment funds will certainly prove to be a tool to take advantage of further private-market price dislocation. One caveat, however, is that JVs still have to secure debt financing. While the vehicles typically use low leverage (which makes sourcing debt financing easier) the need to raise large sums of debt could limit the investment capabilities of some JVs.
- **Steady Fee Income:** The near-term financial basis for building an asset management platform is the profitability of the fee income. Profit margins on fees increase with the size of assets under management. The bulk of fees are generated by asset or property management revenue, which is fairly steady. Fee income is typically calculated as a percentage of gross book value or NOI. Either metric should prove stable

enough that this portion of the fee stream will be highly predictable. Less predictable are performance-based fees.

B. The Shortcomings:

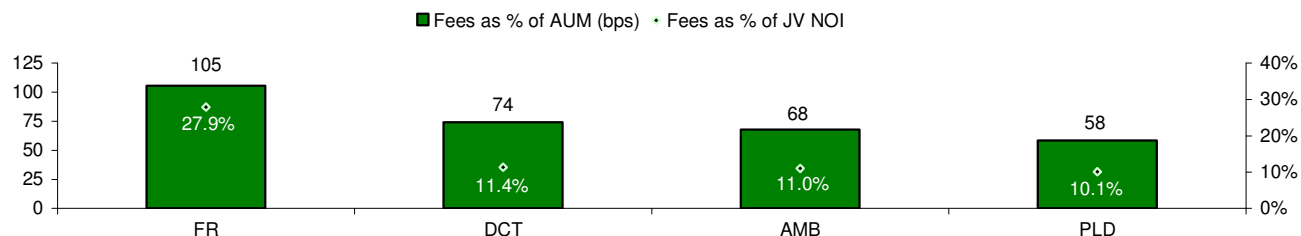
- **The Expiry Date:** A majority of JV assets is owned in finite-life vehicles (i.e. funds with an expiry date). Investors commit for certain time periods and may seek a reallocation of capital to other asset classes at the end of the term. Managing the termination of a fund is one of the key risks of the business. AMB and PLD have both been able to transition finite-life funds into infinite-life vehicles. However, it often requires the ability to find new fund partners. The fee stream of a finite-life JV is therefore worth far less than that of an infinite-life vehicle due to the likelihood that the relationship will be terminated. This is the most negative scenario for the REITs as they lose fee income and tenant relationships. The current investment funds are witnessing their first down-cycle. It is unclear what appetite the JV partners will have in coming years if real estate returns weaken materially.
- **Will the Money be There?** On paper, the pre-committed pools of capital are a fabulous source of funds in a credit crunch. However, it is unclear whether a REIT could force a fund partner to invest a pre-committed sum in the event the partner gets cold feet. And even if the fund commitment was legally enforceable, it is unlikely the best long-term course of action. The sizable pre-committed pools of capital controlled by the REITs could represent an added risk rather than a clear benefit. Given the investor profile in REIT JVs, it appears highly likely that the fund partners will meet capital commitments.
- **More Where it Comes From?** The appetite of pension plans and other institutional investors for real estate can vary greatly over time. While a pullback from the sector is possible, the REITs are likely to remain high on the list of real estate partners. The industrial REITs have developed a track record and relationships with money partners that should continue attracting capital. However, lower demand could negatively impact the fees REITs can command.
- **Is There a Maximum Size?** Despite the obvious financial advantages of owning assets in JVs, REITs have maintained sizable portfolios of real estate on their own balance sheets. It is unclear whether these large holdings are necessary for

Exhibit 3

Asset Management Fee Valuation

A. Ongoing Fee Income

There are two broad categories of fee income: ongoing and incentives. Ongoing fees account for the bulk of JV economics for the REITs. The ongoing fee income can represent a significant percentage of the NOI generated by the underlying JVs. AMB and PLD operate more mature vehicles and their fee streams are more consistent with expected long-term fees. FR seemingly benefits from the best economics, although the high transaction velocity of its JVs renders a comparison with "buy and hold" vehicles less applicable.



Source: Company disclosure and Green Street Advisors.

Ongoing Fee Income Sources...

Industrial REITs receive a variety of ongoing fees including asset management, property management, development, acquisition, leasing, and disposition fees. The mix depends on how each venture is structured. Asset and property management fees are often interchangeable and make up the bulk of JV economics. The other fees are all related to transactions and are less stable.

Fee Source (1)		
Company	Asset and Prop Mgmt	Other
AMB	71%	29%
DCT	67%	33%
FR	30%	70%
PLD	75%	25%

FR's heavy reliance on transaction-based income should result in more volatility

(1) Based on our best estimates using available disclosures and conversations with management.
Source: Green Street Advisors.

...fund Stability...

The longer the expected life of a fund, the higher the multiple that should be placed on the fee income. Industrial REITs have recently embraced infinite-life vehicles (which could result in a sustainable source of fee income).

Company	Infinite-Life Fund AUM	Finite-Life Fund AUM
AMB	60%	40%
DCT	0%	100%
FR	0%	100%
PLD	50%	50%

AMB and PLD have previously demonstrated their ability to transition finite-life vehicles into infinite-life funds. The two REITs are likely to do so again in the future.

Source: Green Street Advisors.

...and a Valuation Multiple...

The average publicly traded money manager trades at a EV/EBITDA of 12x.

Name	Ticker	EV/EBITDA	Name	Ticker	EV/EBITDA	
Blackrock Inc.	BLK	17.3	INVESCO	IVZ	10.6	
Cohen & Steers	CNS	8.2	Janus Capital Group	JNS	12.5	
Eaton Vance	EV	11.6	T. Rowe Price Group	TROW	12.9	
Franklin Resources	BEN	8.8				
					Average:	11.7

Source: www.finance.yahoo.com.

Exhibit 3

Asset Management Fee Valuation (Cont'd)**...Drive Ongoing Fee Income Value in the NAV**

Valuing fee income is more "art" than "science" and involves the use of two main assumptions: determining a profit margin and applying an appropriate multiple. We value the profits generated by asset and property management fees at a 12x and the profits from "other fees" at a 6x. Both multiples are materially lower than previously used. The business is best valued using an EBITDA multiple. We had previously used a P/E multiple, thus giving too much credit. The multiples used are then adjusted for the expected life of the fee stream (largely based on the type of JVs each REIT structured, although AMB and PLD earn marks for having proven their ability to roll over finite-life funds into infinite-life vehicles). Future growth in fee income is not included in this exercise and is captured through the warranted premium to NAV in our Pricing Model.

Company	Gross Annual Fee Income (\$m)	Estimated Margin	Net Fee (\$m)	Initial Multiple Based on Fee Source	Discount due to JV Life	Valuation Multiple	Ongoing Fee Values (\$m)
AMB	34.8	59%	20.4	10.3	9%	9.4	191.1
DCT	4.5	50%	2.3	10.0	44%	5.6	12.6
FR	20.8	40%	8.3	7.8	44%	4.3	36.0
PLD	128.2	63%	80.6	10.5	11%	9.3	751.5

Source: Green Street Advisors.

B. Incentive Fees

JVs are usually structured to reward the manager (i.e. the REIT) for achieving certain pre-determined performance targets, often measured in terms of levered cumulative returns (IRR). The incentive fees represent a small portion of NAV and the values shown below pertain solely to incentive fees that are now in the money.

Incentive Fees			
Company	General Terms (1)	Estimated Present Value (\$m)	% of NAV
AMB	15% of cash flows over 9% levered IRR; or 20% over 12% levered IRR	84.9	1.5%
DCT	Undisclosed, but likely out of the money	0.0	0.0%
FR	Undisclosed, but may reach 30-50% of returns above a certain threshold	83.0	5.0%
PLD	20% of cash flows over 9% or 10% levered IRRs	129.2	1.0%

Incentive fees are highly sensitive to cap rate changes and NOI growth. A 100 basis point increase in cap rates would likely wipe out incentive fees for all REITs.

(1) From company disclosure and Green Street estimates.
Source: Bloomberg.

C. Aggregate Fee Valuations Have Declined

The new valuation methodology associated with ongoing fees has materially reduced the value ascribed to the asset management business in our NAV estimates. However, the strategic value and the growth expected from the business should result in a significant premium to NAV. That premium likely represents 3-4% above NAV for AMB and 6-7% for PLD; the equivalent of doubling the multiple used to value the fees in NAV.

Total Estimated Fee Values					
Company	Value of Ongoing Fees (\$m)		Value of Incentive Fees (\$m)		NAV Change %
	3Q07	4Q07	3Q07	4Q07	
AMB	264.7	191.1	71.0	84.9	-1.1%
DCT	18.9	12.6	0.0	0.0	-0.3%
FR	93.7	36.0	87.6	83.0	-3.5%
PLD	1,582.2	751.5	123.3	129.2	-6.0%

Source: Green Street Advisors.

PLD's ongoing fee value was increased materially after it raised \$14 billion in new capital in August '07, even if assets had yet to be acquired. We have changed our methodology so that only *current* fees are valued in the NAV. The growth in fee income is accounted as part of the Franchise Value used in determining the warranted share price of every REIT. PLD's Franchise Value has been increased to reflect the benefit of sizable pre-committed JV pools.

Exhibit 4

Industrial REITs are active merchant-builders and receive various types of fee income from JVs. The risks associated with each of these business drivers differ vastly. For AMB and PLD, the percentage of NAV that is associated with stable JV fees (asset and property management) is roughly two-thirds of the NAV that is attributable to far more speculative activities: development, incentive fees, and transaction-related fees from JVs. By contrast, FR's NAV is more levered to "the good times" as incentive fees account for a relatively high percentage of the NAV.

Ticker	Dev. Value Creation as a % of NAV	Potentially Volatile JV Fees		Total	By contrast, asset and property management fees are likely to provide stability to the NAV estimates, whether cap rates increase or transaction velocity declines.	Stable JV Fees
		Transaction Fees as a % of NAV	Incentive Fees as a % of NAV			
AMB	1.8%	0.6%	1.5%	3.9%		2.8%
DCT	0.0%	0.1%	0.0%	0.1%		0.5%
FR	0.2%	1.2%	5.0%	6.4%		1.0%
PLD	5.2%	1.6%	1.0%	7.7%		4.9%
Average	1.8%	0.9%	1.9%	4.5%		2.3%

funding bulging development pipelines, which, in turn, can grow the assets under management in JVs. Goodman, an Australian REIT with a vibrant asset management model, seems to maintain relatively low levels of balance sheet assets as compared to funds under management. If U.S. REITs must maintain a minimum balance sheet to match JV assets, the growth of assets under management could taper off.

- **Too Easy to Spend:** The availability of JV capital may result in sub-optimal capital allocation. REITs can marginally overpay for portfolios in JVs because they can "make it up with fees".

C. Valuing the Business:

There are two broad categories of fees that may be derived from JVs. Ongoing fees are generated on a regular basis throughout the life of a fund, either for managing the assets or performing various tasks (leasing, development, etc.) for the venture. Most JVs are also structured to pay an incentive fee to the manager if certain performance thresholds are met. The level of transparency for each REIT is uneven and assessing the value of the various fee streams relies on a number of assumptions. Exhibit 3 discusses the methodology used in valuing fees in the NAV and the significant decline in our estimate of value. **Only current fee income and in-the-money incentive fees are explicitly given value in the NAV. There is no NAV credit for expected growth and, therefore, the multiples used to value fees are not reflective of growth expectations.**

The strategic merits of the business and its growth potential are a component of the premium to NAV investors should be willing to pay for the industrial REITs. There are ample reasons to believe that the multiple needed to value the growth prospects and strategic merits of the asset management model would be at least twice as high as the multiple used in our NAV estimates and result in NAV premiums of roughly 2-7%.

PLD warrants the largest premium since it sits on more than \$10 billion in pre-committed capital and benefits from a capable platform globally. AMB also warrants a premium to NAV based on its asset management growth potential and the platform it is creating globally. FR benefits from a tight relationship with CalSTRS, and it is unclear how much more growth can be expected. In addition, relying mostly on a single fund partner increases the risks associated with long-term fee viability. DCT is in the early stage of building the platform and uses third-parties to manage its portfolio, thus limiting the upside it can provide its partners. In addition, it has a relatively small development pipeline.

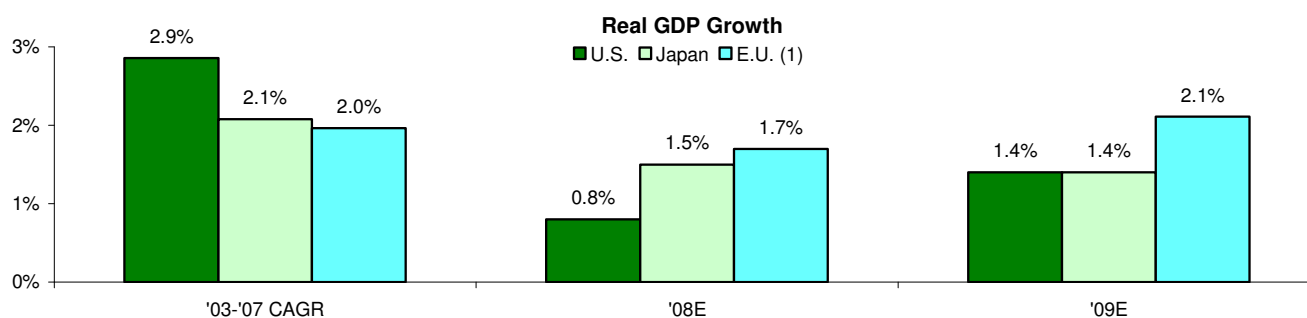
III. Is Industrial Development "De-coupled" from Economic Growth?

Many economic commentators have debated whether the U.S. and non-U.S. economies now march to a different drummer (i.e. are "de-coupled"). It seems rather clear that at any point in time, some

Exhibit 5

The Wind is no Longer at Their Backs

Industrial development pipelines have recently grown exponentially. Almost all REITs also expect annual development starts to increase in coming years. AMB and PLD will spend the vast majority of their development capital outside of the U.S. Economic growth in industrialized world markets (where the REITs are active) is projected to follow the decelerating U.S. trend in '08. Consequently, industrial REITs' international development projects may face a less welcoming economic environment going forward. It is unclear whether the global "reconfiguration of the supply chain" will remain a key demand driver for new warehouses if the economy decelerates.



(1) "E.U." is based on a weighted average of GDP growth in the U.K., France, and Germany from '03-'07. The '08E datapoint represents the whole E.U., while '09E is again based on a weighted average of The Economist's estimates for GDP growth in the three largest European nations.

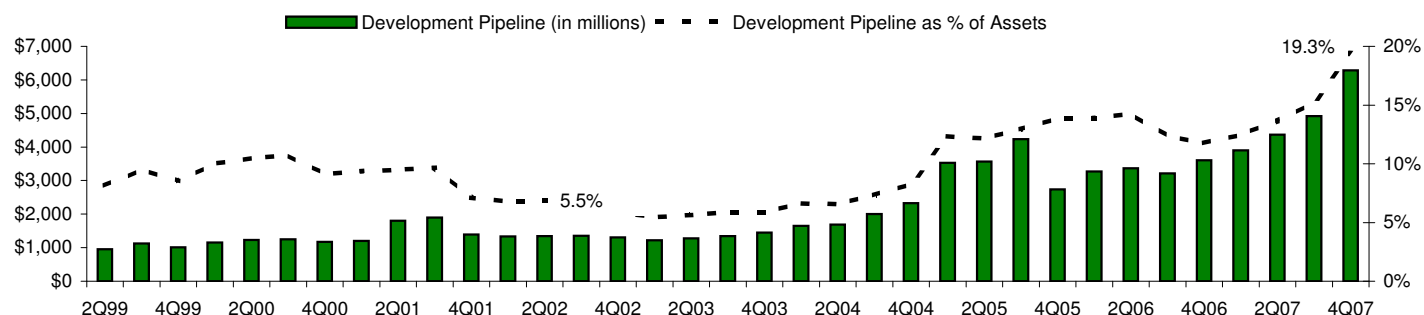
Source: Economist.com.

economies will perform better than others, but that a significant event in a major economy will have repercussions globally given the global reach of capital. A more important question is how the industrial business may be correlated to the overall economy. In the U.S., the data shows very distinctly that periods of economic contractions are associated with significant declines in occupancy and rents. Globally, the "reconfiguration of the supply chain" has provided significant new demand for industrial developers. However, that demand has been compounded by a period of economic growth. It is unclear how sustained the demand for space could be in Europe or Japan if the economies softened. Reconfiguring one's distribution network could still be an important cost saving necessity in coping with lower revenues, but it could very well become another delayed project in the face of uncertainty.

IV. Development

Development Pipeline Continues to Reach New Highs

Industrial REITs have \$6.3 billion of assets under development or redevelopment on their balance sheets. Including completed projects yet to be contributed to JVs, the total nearly doubles to \$10 billion. The industrial REITs hope to increase that number further in coming years.



Source: Company disclosure and Green Street Advisors.

Removing CenterPoint, Liberty and Duke from the industrial group in late '05 led to the decline in total assets under development.

A basic tenet of finance is that a typical capital investment needs to offer a prospective return that exceeds a firm's weighted average cost of capital (WACC). Higher risk investments – e.g. development – need to offer even higher returns. Unfortunately, the WACC for virtually every REIT has increased greatly over the last year as a result of a sizable increase in the cost of debt and an even larger increase in the cost of equity. Against that backdrop, it is appropriate to question whether the development pipeline for any given REIT offers prospective returns that are high enough to exceed the now-elevated WACC.

Indeed, it may well be the case that the majority of REIT development projects currently stack up as value-destroying when measured against an appropriate WACC. It wasn't too long ago when development economics looked great; how did things change so fast? The primary culprit is the bear market in REITs, but it is the more subtle message embedded in today's stock prices – cap rates are headed higher and real estate values are headed lower.

This does not mean that development is inherently a bad business, nor does it mean that REITs with large development infrastructures and projects underway should pull the plug. Indeed, the industrial development business is less risky compared to that of other sectors due to the short time required to complete a project. In addition, development is often a conduit to building asset management funds, which can create a source of value for the industrial REITs that is generally not available to most other companies. Development is a risky business, and the next couple of years are likely to be a time when every dollar allocated to development could be a sub-optimal allocation of capital. Yet, industrial developers, especially outside of the U.S., may still create sufficient value in new projects as compared to the risks involved.

The value granted to future development gains in our NAV estimates is now calculated using a method that can be equated to an Economic Value Added (EVA) concept. The new methodology captures the risks associated with development in a more systematic manner and allocates "value creation" only when certain pre-leasing milestones are achieved. This contrasts with a previous approach that was more lenient on the risks taken to achieve a given level of capital growth.

Tickers	Development Yield	WACC	Old Value Creation	New Value Creation	Impact on NAV
AMB	7.4%	6.9%	\$238,549	\$101,797	-2.4%
PLD (1)	7.6%	7.2%	\$951,528	\$684,435	-2.0%
FR	8.5%	8.2%	\$33,571	\$3,974	-1.7%
DCT	7.6%	7.0%	\$26,290	(584)	-1.3%
Average	7.8%	7.3%			-1.9%
Wtd. Average	7.8%	7.3%			-1.5%

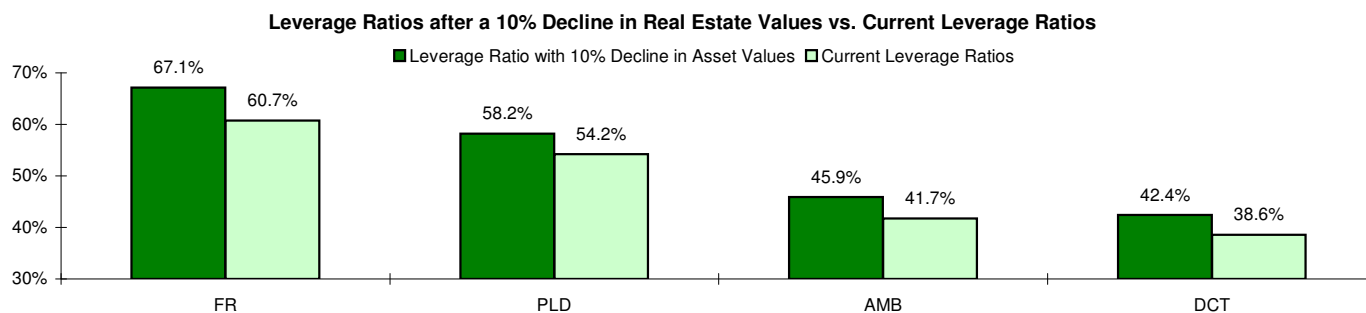
(1) Green Street Estimate

Source: Company disclosure and Green Street Advisors estimates.

V. Keeping a Close Eye on Liquidity

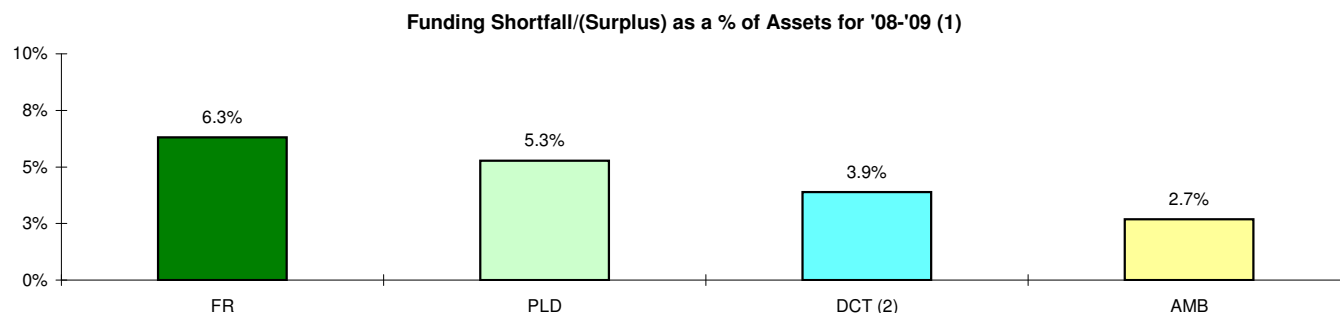
Tight lending conditions have greatly increased the importance investors should place on balance sheet strength and liquidity. Each company has unique characteristics to consider when analyzing its debt position and liquidity needs. However, by focusing on leverage, near-term funding needs and upcoming debt maturities, one can rapidly identify those most likely to be wounded by the credit crunch.

Assuming that private-market prices decline by another 10%, the leverage ratios of the industrial REITs would rank from "acceptable" (DCT and AMB) to "severely constraining" (FR).



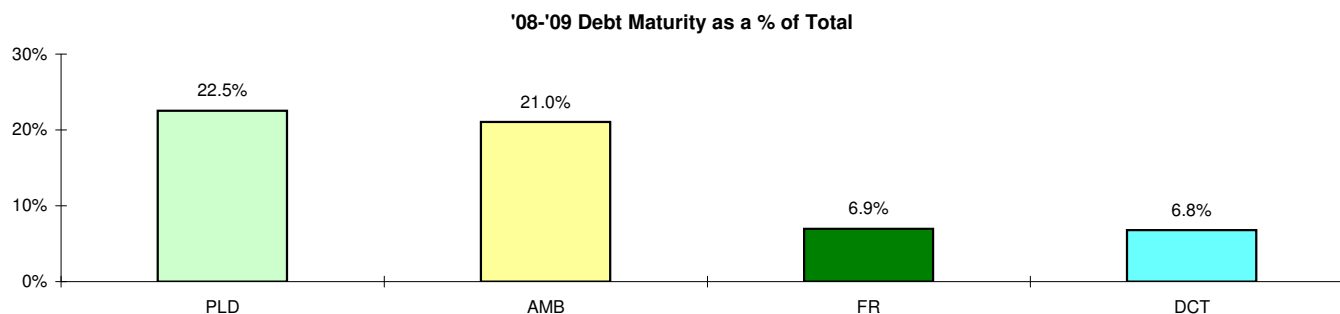
Source: Green Street Advisors.

High leverage becomes tangible once liquidity needs or debt refinancing emerge. The industrial REITs have relatively low cash needs in the coming two years despite active development pipelines and noticeable debt maturities. With access to institutional capital through their joint ventures, the industrial REITs are in a less precarious debt position than their leverage ratios or funding shortfalls would indicate. Nonetheless, they are also dependent on a functioning transaction market due to the high velocity of capital in the business model.



(1) Funding Shortfall = Cash + Recurring Cash Flow (AFFO - dividends) + Remaining LOC Capacity - '08-'09 Maturities - Unfunded Development
 (2) Excludes a debt maturity that can be extended.

Source: Green Street Advisors.



Source: Green Street Advisors.

VI. Changes to Estimates

NAV Estimates

Updated NAV estimates including most of the changes discussed in this report were published on April 1st as part of the Real Estate Securities Monthly. The NAVs include higher cap rates for valuing the U.S. portfolios. Cap rates in coastal and primary markets were increased by an average of 5 to 10 basis points. Cap rates in secondary markets were raised by roughly 25 basis points. We also realigned the cap rates used in each market across all companies in order to appropriately reflect submarket differences. PLD was most negatively impacted. The effect of higher cap rates was compounded by the company's spartan disclosure. One can only know with certitude the location of PLD's wholly-owned assets through a table published annually in the 10-K. The market mix review negatively impact PLD's average U.S. cap rate. Including changes made herein to fee income valuation, industrial NAVs have decreased by a relatively small percentage compared to the NAVs published prior to April 1st. This is primarily due to surprisingly high NOI growth (boosted by a falling dollar in some cases) for all companies.

Company	Previous U.S. Cap Rate	New U.S. Cap Rate	Change (bps)	NAV Prior to April 1, 2008 (1)	New NAV	% Change
AMB	5.82%	5.88%	6 bps	\$54.50	\$54.00	-0.9%
DCT	6.48%	6.64%	16 bps	\$10.25	\$9.75	-4.9%
FR	7.27%	7.47%	20 bps	\$34.50	\$33.50	-2.9%
PLD	6.05%	6.28%	23 bps	\$51.00	\$49.25	-3.4%
Average			16 bps			-3.0%

(1) We published updated NAVs with 4Q07 financial information on April 1st. The NAVs published on that date also included the changes to cap rates and to development valuation. However, they did not fully include the new methodology for valuing ongoing fee income.

Same-Property NOI Growth Estimates

Same-property NOI growth estimates have been lowered substantially due to a weakening economic environment. Our forecasts are now either at the low end or slightly below management's guidance.

Company	'08E Same-Property NOI Growth			'09E Same-Property NOI Growth			'10E Same-Property NOI Growth		
	Initial	New	Change (bps)	Initial	New	Change (bps)	Initial	New	Change (bps)
AMB	3.7%	3.0%	-66	3.3%	2.8%	-49	3.5%	3.6%	4
DCT	1.9%	1.2%	-70	3.3%	1.4%	-187	3.4%	2.8%	-57
FR	3.0%	2.9%	-4	2.3%	2.0%	-32	2.3%	2.2%	-12
PLD	3.3%	2.9%	-42	3.0%	2.7%	-30	2.7%	2.9%	20
Average	3.0%	2.5%	-45	3.0%	2.2%	-74	3.0%	2.9%	-11

FFO and AFFO Estimates

Company	2008 FFO Estimate			2009 FFO Estimate			2010 FFO Estimate		
	Initial	New	% Change	Initial	New	% Change	Initial	New	% Change
AMB	\$3.95	\$3.96	0.3%	\$4.35	\$4.26	-1.9%	N.A.	\$4.60	N.A.
DCT	\$0.73	\$0.71	-3.0%	\$0.80	\$0.73	-8.2%	N.A.	\$0.77	N.A.
FR	\$4.80	\$4.70	-2.1%	\$4.91	\$4.84	-1.5%	N.A.	\$4.94	N.A.
PLD	\$4.75	\$4.84	2.0%	\$5.11	\$4.99	-2.3%	N.A.	\$5.24	N.A.
Average			-0.7%			-3.5%			

Company	2008 AFFO Estimate			2009 AFFO Estimate			2010 AFFO Estimate		
	Initial	New	% Change	Initial	New	% Change	Initial	New	% Change
AMB	\$1.67	\$1.65	-1.0%	\$1.86	\$1.80	-3.2%	N.A.	\$2.07	N.A.
DCT	\$0.48	\$0.50	4.4%	\$0.51	\$0.51	0.7%	N.A.	\$0.53	N.A.
FR	\$1.03	\$0.66	-35.9%	\$1.01	\$0.68	-32.7%	N.A.	\$0.71	N.A.
PLD	\$1.76	\$1.77	0.6%	\$2.16	\$1.89	-12.3%	N.A.	\$2.13	N.A.
Average			-8.0%			-11.9%			

VII. Company Commentary

Below is an update on the valuation issues that most impact the industrial REITs in our coverage universe.

AMB Property (AMB) – The Offense Stays on the Field

AMB's business is built on a solid foundation for the current environment. While the portfolio is primarily in the U.S., it is concentrated in coastal locations and often in significantly in-fill submarkets. This feature should help sustain the highest same-property NOI growth in the group over the near and long term. In addition, cap rates have risen at a much slower pace in coastal/in-fill markets than in secondary locations. The balance sheet is also *only* 40% levered (fruit of a well-timed equity issuance roughly one year ago), which shelters the REIT from debt-crunch-related problems and affords sufficient flexibility to take advantage of investment opportunities. A meticulous global expansion of the platform "from the ground up" is still AMB's preferred course of action, although the company has admitted flirting with at least one large acquisition (BAA in the U.K.) and is likely contemplating Gazeley, a Wal-Mart subsidiary with land parcels and a development focus in Europe and various Asian countries that is currently for sale. The development business is growing briskly – having reached \$1.7 billion from \$100 million just five years ago. Roughly 60% of all projects are located outside of the U.S. (a level that should grow further in '08). Development has so far delivered adequate returns, although it will be years until investors can categorically say that AMB is an astute developer. In most cases, AMB must request additional partner capital every 12-18 months in its infinite-life vehicles. As a result, there is less certainty that the company's institutional partners will fund future acquisitions. Nonetheless, AMB has long-standing relationships with its partners and likely keeps a long list of potential investors, which suggests a higher degree of certainty that JVs will have the funds necessary to purchase future developments.

DCT Industrial Trust (DCT) – A Tortoise Taking on the Hares

Among industrial REITs, DCT is the best example of a "plain vanilla" vehicle: it has a relatively small development platform (13% of operating assets); owns almost exclusively in the U.S.; is in the early stages of building an asset management platform; sports balance sheet leverage that is low compared to the peer group; and the management team has pur-

posefully sat on the sidelines in recent quarters, acquiring only sparsely through joint ventures. An investment in DCT is like taking the bet that the tortoise will beat the hare. Yet, not all aspects of the company provide good defense. While properties are spread throughout 25 U.S. markets, there are heavy concentrations in the Midwest, which could struggle in a down-market. Likely because of its market selection, DCT posted relatively low same-property NOI growth in '07 and is likely to remain at the bottom of the pack in '08. DCT also doubled its development pipeline during the fourth quarter, a likely less-than-optimal allocation of capital. The near-term prospects of its 50% ownership at SCLA, a mammoth development site in Victorville, CA have become more clouded. With vacancy in the Inland Empire East submarket (the main competitor) close to 10% and lease rates declining, the value proposition of Victorville is less compelling. In addition, activity at the ports of LA and Long Beach has slowed down, thus mitigating demand.

First Industrial (FR) – Leverage, Leverage, Leverage

REITs derive no benefit from leverage, let alone highly-levered balance sheets. FR's 61% leverage ratio and virtually tapped lines of credit (less than \$50 million was available when it published its 10-K in March) are important cause of concerns for investors. The company runs the most active investment model in the REIT universe, turning over as much as 40% of its portfolio annually. Such a strategy relies on two main pillars: a vibrant transaction market and balance sheet liquidity. Both are now constrained and could greatly reduce the ability of the company to generate the investment and disposition volume needed to fund its dividend. Yet, there are mitigating circumstances. The next large debt maturity is not scheduled until June '09. Also coming to the rescue is FR's rich uncle (CalSTRS), which has provided the company with almost half of its capital (through JVs) in recent years. With 50% of all transactions taking place in JVs, FR is increasingly behaving like a subsidiary of the California pension plan. While FR's JV economics have been good, they represent only a small percentage of the company's total value. With limited national transaction velocity, FR will rely more than ever on its disposition group to maintain its business model. The company has a long tradition of selling assets piecemeal, which is perhaps the only method by which it can part ways with several hundred million dollars worth of real estate every quarter. The price at which assets can be sold could continue declining, suggesting that FR's profitability will be strained. A credit crunch is a bad thing; it is even worse when the business model de-

depends on liquid capital markets and functions on high leverage.

ProLogis (PLD) – Outrunning the Market?

World-class marathoners run the distance at a pace that is faster than most people can run a mile. PLD is seeking to do the equivalent with its business. Management outlined a 2010 development start target of \$6 billion from roughly \$4 billion at present. How to achieve such a lofty goal in a slowing economy is unclear. However, it is not that long ago that \$2 billion in starts “felt too high”. The global team is strong and certainly capable of capturing greater development market shares. In addition, well-capitalized entities no longer have to contend with debt-fueled regional developers. Yet, the \$6 billion target appears in jeopardy and PLD is more likely to continue at a development pace in the \$4-5 billion range. To sustain such a level of starts in a softening global economy would be remarkable and a boon to the asset management business. The near-term value creation of each development project is likely to be modest versus recent performance. Balance sheet leverage has been creeping up beyond 50%, but the numbers are deceptive. PLD’s leverage is driven by its high development activities for which there is a ready buyer pool in pre-committed JVs. The more than \$10 billion of committed capital in PLD’s funds can support two years of development completions. PLD’s fund management business may also expand through third-party acquisitions if further private-market price dislocation occurs. PLD is in a favorable position to weather credit concerns: it trades at a premium to NAV, which would make a stock issuance a possible source of financing.

VIII. Recommendation

Industrial REITs currently trade at a 1,900 basis point premium to the average REIT, a slight premium to their 3-year average. The risks associated with an investment in the industrial sector have increased in recent months. There is significant uncertainty in regards to the future profitability of development projects as well as the volume of starts that can be generated at an appropriate risk-adjusted return going forward. However, there are mitigating factors. Industrial REITs benefit from large asset management platforms and global exposure may result in better investment prospects than for REITs limited to the U.S.

We have a BUY recommendation on PLD based primarily on its international exposure (40%) of asset value as well as the belief that non-U.S. development volume and margins will continue to justify an active pipeline. Large sums of pre-committed JV capital also assuage concerns with a relatively high leverage ratio. FR retains a SELL recommendation due to its high leverage and the negative impact it could have on the overall business model in coming quarters.

At current prices, our recommendations are unchanged:

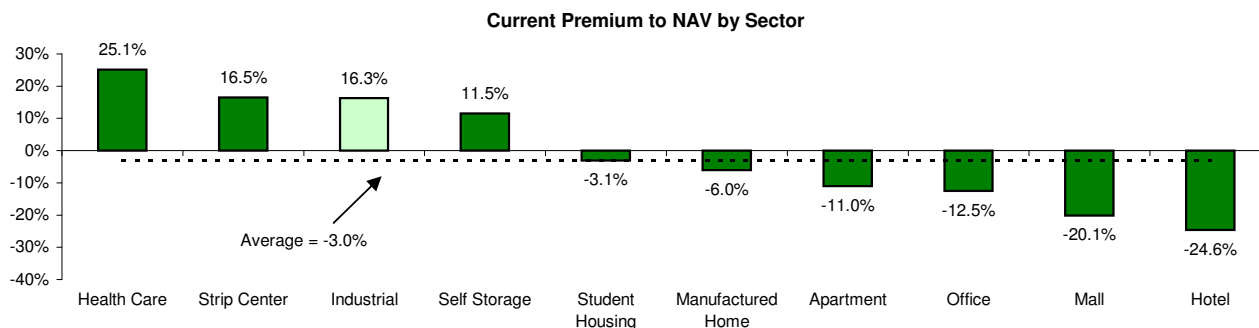
BUY: PLD
HOLD: AMB, DCT
SELL: FR

Cedrik Lachance
Steve Frankel

IX. Valuation

Premium/Discount to NAV by Sector

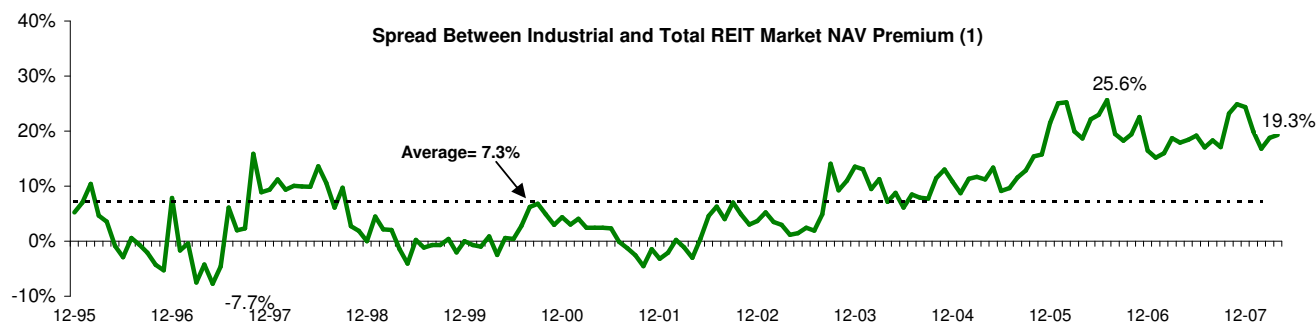
Industrial REITs continue to trade at one of the highest premiums to NAV among all REIT sectors. However, they have relinquished first place, a rare event.



Source: Green Street Advisors. Data as of 4/4/08.

Spread Between Industrial NAV Premium and Total REIT Market

Industrial REITs have historically traded at a premium to the aggregate REIT market. Since '01, the premium has widened as industrial REITs reinvented their businesses from build-and-hold developers to higher growth merchant-building fund managers. The average industrial premium to NAV has shrunk since the beginning of '08 as investors have become concerned about the growth pace in the development and asset management businesses as well as the profit margins on new development.

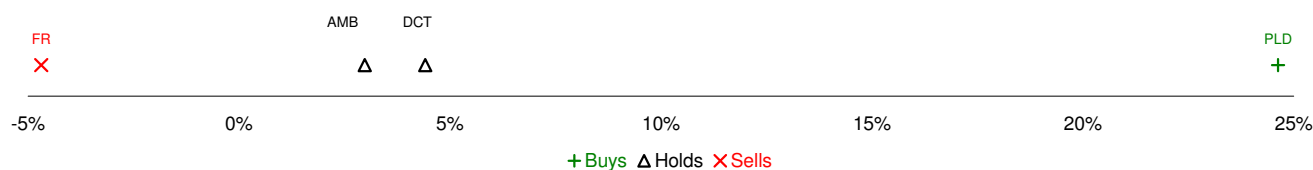


(1) Total REIT market represents an equally-weighted average of Apartment, Industrial, Mall, Office, and Strip Retail. These sector level NAV premiums are market-cap weighted averages. Historic data excludes companies that Green Street no longer covers.
Source: Green Street Advisors. Data as of 4/04/08.

Recommendations

We have a **BUY** recommendation on PLD based primarily on its international exposure (40%) of asset value as well as the belief that non-U.S. development volume and margins will continue to justify an active pipeline. Large sums of pre-committed JV capital also serve as an important source of financing in a credit crunch. FR retains a **SELL** recommendation due to its high leverage and the negative impact it could have on the overall business model in coming quarters.

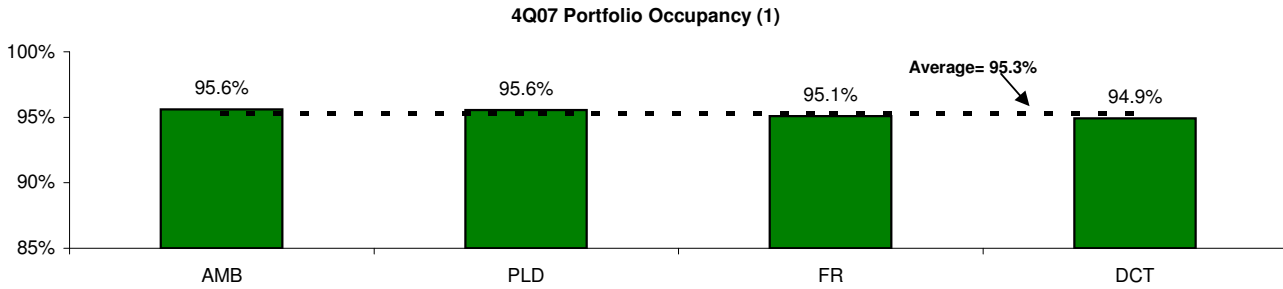
Observed Share Price Premium to Green Street's Estimate of NAV
Industrial REIT Avg = 6.8%



X. Recent Operating Results

4Q07 Portfolio Occupancy

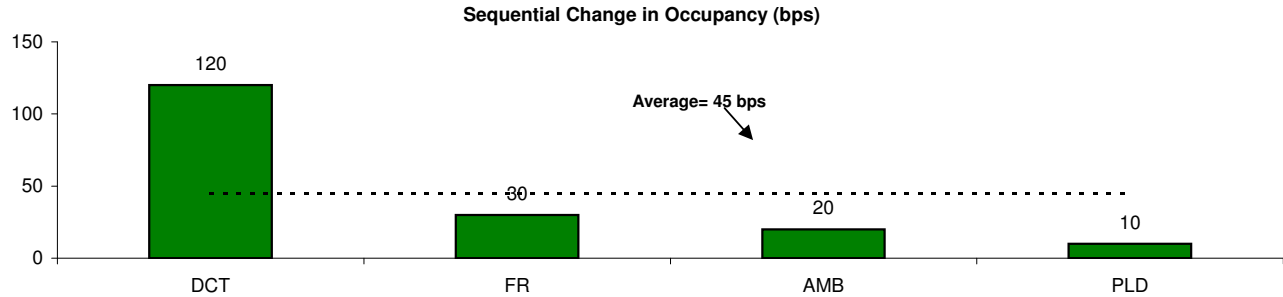
Industrial REITs enjoy high and similar occupancy levels, despite having asset concentrations in very different markets.



(1) PLD's figure refers to its occupancy on stabilized properties. The occupancy shown for PLD, AMB, and DCT includes occupancy in JV assets.
Source: Company disclosure.

Change in Occupancy (4Q07 vs. 3Q07)

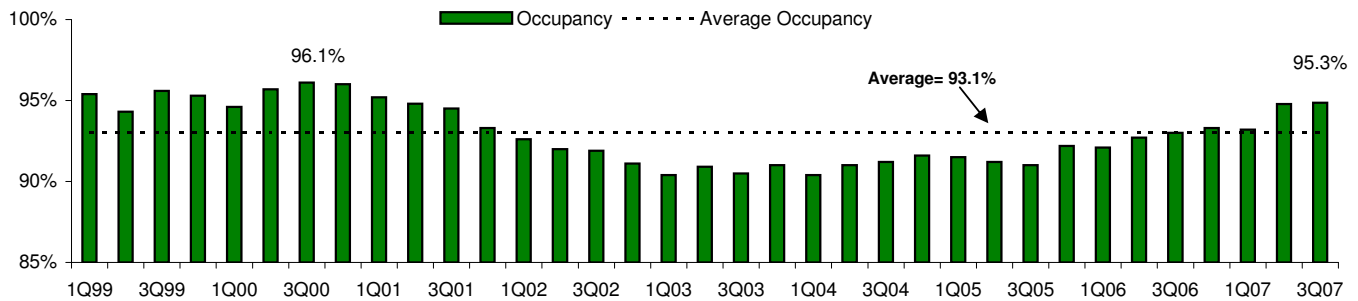
All four industrial REITs registered occupancy gains during the fourth quarter. DCT outperformed the group average by nearly 100 basis points due to strong lease-up in many markets as well as the acquisition of fully occupied properties.



Source: Company disclosure.

Historical Occupancy

Industrial REIT occupancy is hovering near the highs reached in '00. With a weaker U.S. economy and slowing U.S. imports, occupancy may have peaked.

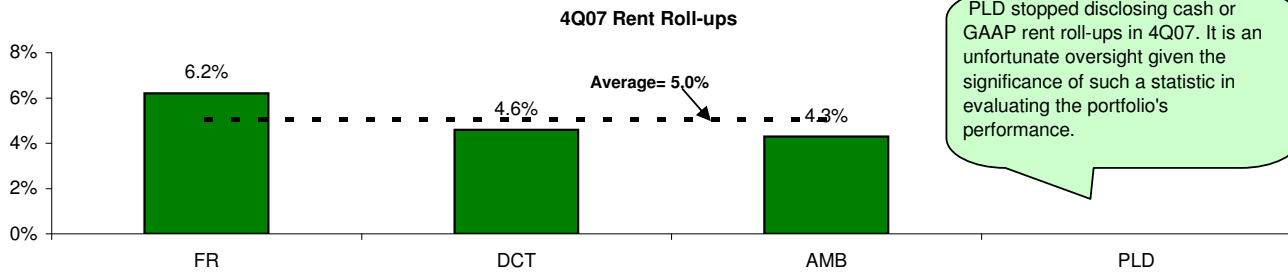


Source: Company disclosure.

X. Recent Operating Results (cont'd)

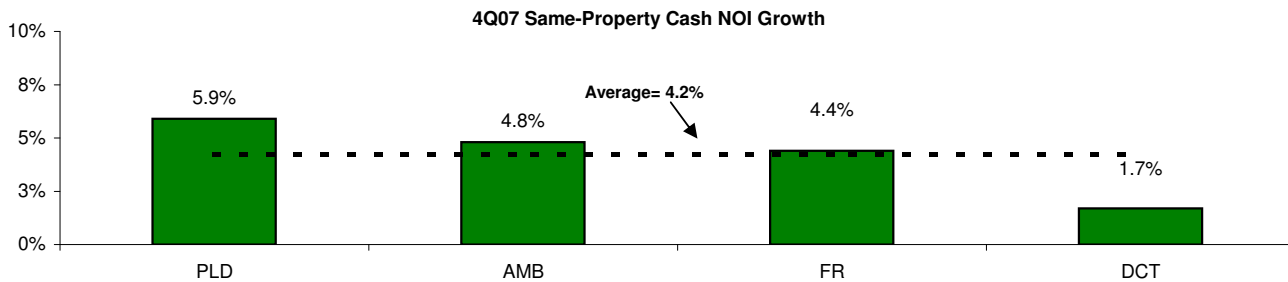
4Q07 Industrial Cash Rent Roll-ups

With market rents rising over the last three years, rent roll-ups on renewals are becoming more common as leases signed near the trough of the previous cycle are being marked-to-market. After trailing the peer group in 3Q07, FR led all industrial REITs during 4Q.



Source: Company disclosure.

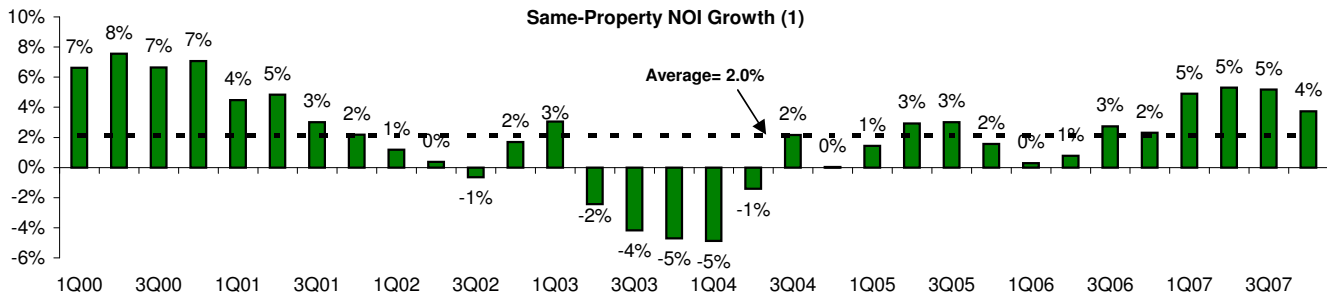
Same-Property NOI Growth Remains Strong...



Source: Company disclosure.

...but Seems to Have Peaked

Industrial same-property NOI growth has been on an upswing for three years, but may be peaking. Given the large piece of total enterprise value that is related to operating assets, same-property NOI growth is one of the key drivers of value for industrial REITs. AMB, FR, and PLD forecast 3-5% same-property NOI growth for '08 and DCT 1-3%. Given weakening macroeconomic fundamentals, the low-end of each company's range is the most likely outcome.



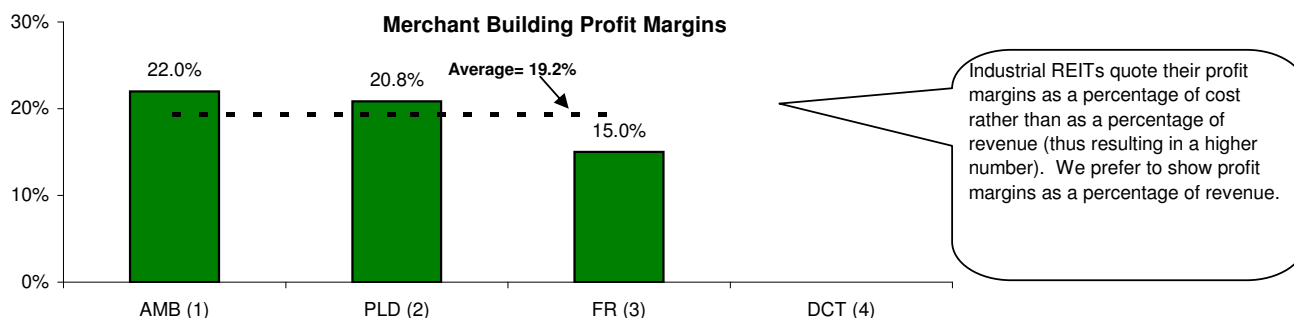
Source: Company disclosure.

(1) Same-property NOI growth based on arithmetic average for all industrial REITs in Green Street's coverage universe.

X. Recent Operating Results (cont'd)

4Q07 Merchant-Building Profit Margins

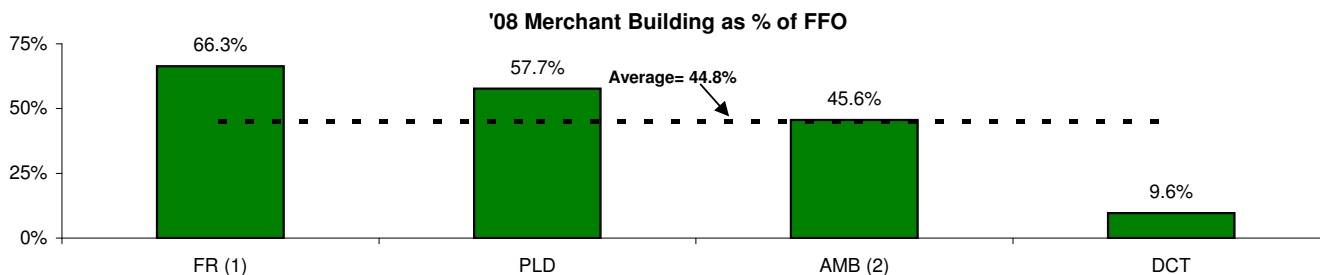
Development profit margins remain well above underwritten targets of 12-15%. AMB led its peers in 4Q07, besting PLD for the first time during '07.



(1) AMB's margin represents merchant-building sales and excludes the VAC business.
 (2) PLD's margin represents merchant-building sales and does not include other assets contributed to funds at cost following recent acquisitions.
 (3) FR does not disclose merchant-building sales so its 15% margin is based on the company's net economic gains on portfolio and JV asset sales
 (4) DCT did not sell merchant-building assets during 4Q07.
 Source: Company disclosure and Green Street Advisors.

Merchant-Building and Gains on Existing Properties Drive FFO

Industrial REITs include merchant-building gains and, occasionally, gains on disposition of existing properties in FFO. This practice has created an earnings measure that is highly dependent on transaction activity and, thus, is of little use in valuing the companies. Nonetheless, the FFO metric is widely followed and may have a significant near-term impact on stock prices. Declines in merchant-building volumes or profit margins could have a material negative impact on FFO. The REITs have been running increasingly faster on the gains-on-sales treadmill. Some could need to catch their breath by the end of the year.

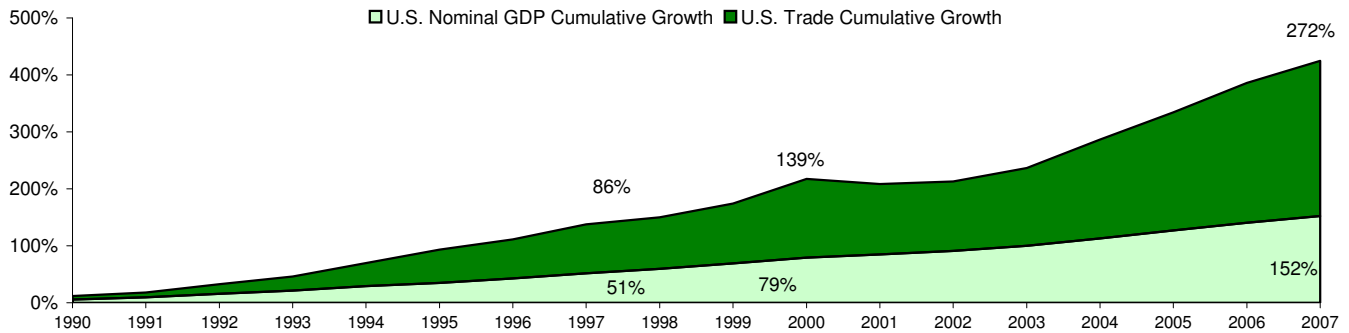


(1) Represents "net economic gains", which includes sales of existing properties.
 (2) Includes the VAC business, whose accounting is similar to FR's "net economic gains".
 Source: Company disclosure and Green Street Advisors.

XI. U.S. Industrial Market Update

U.S. Trade v. GDP Growth Trends

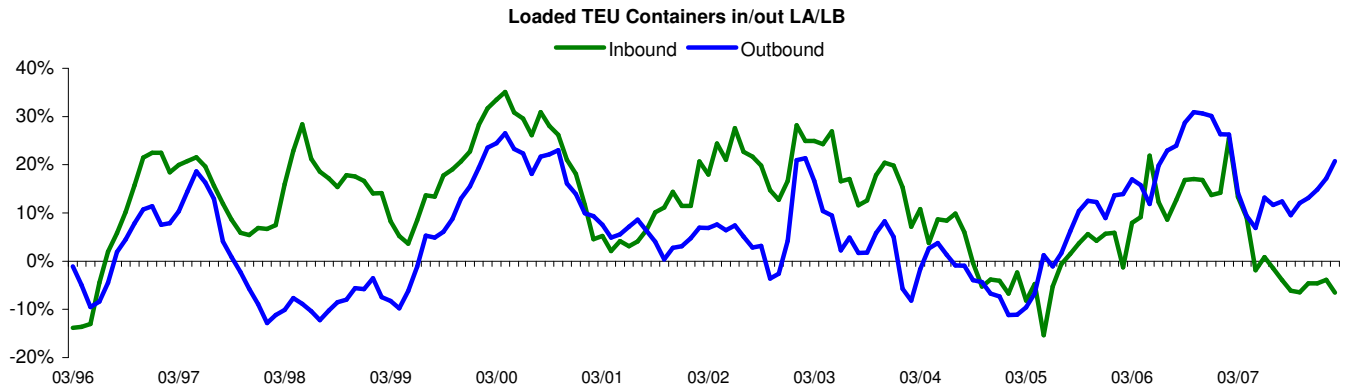
Growth in U.S. trade remains one of the key drivers of industrial demand and continues to outpace GDP growth.



Source: Office of Trade and Industry Information, Manufacturing and Services, ITA, U.S. Department of Commerce and Bureau of Economic Analysis.

Import Traffic Slowing

A decline in the U.S. dollar and a weakening economy have caused inbound container traffic at the ports of Los Angeles and Long Beach to slow to levels unseen since early '05. At the same time, outbound container shipments have climbed. Declines in imports could forebode lackluster demand for industrial space.

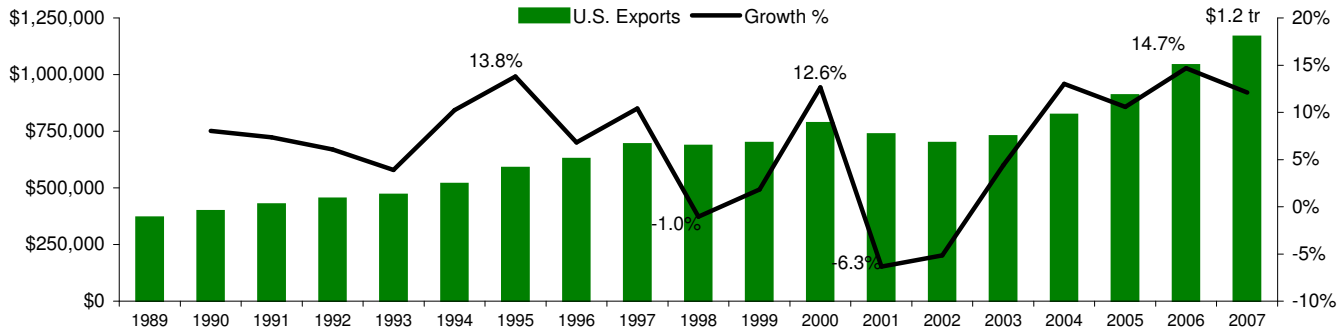


(1) Represents the year over year change in the three month moving average of loaded-container traffic in and out of the Port of LA/LB.
Source: Port of Los Angeles

XI. U.S. Industrial Market Update (cont'd)

U.S. Exports

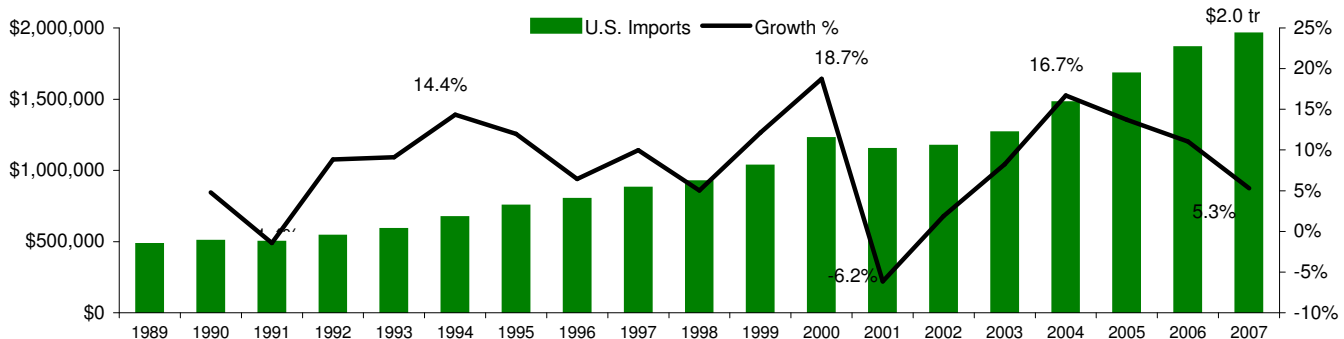
U.S. exports grew by 12% in '07, rising to nearly \$1.2 trillion. A weak U.S. dollar has increased the attractiveness and competitiveness of U.S. goods. With low interest rates and inflationary pressure in the economy the dollar could remain favorable to exporters. Strong exports typically increase the demand for manufacturing facilities as opposed to distribution warehouses, which are generally more closely tied to import growth.



Source: Office of Trade and Industry Information, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce.

U.S. Imports

While the long-term growth rate of U.S. imports has outpaced exports, the tide turned in '07 as import growth underperformed export growth by a 7% margin. Since the flow of goods from Asia has started to wane, the demand for industrial space in key West Coast distribution markets and inland hubs has slowed. A weak U.S. dollar will likely cause import growth to remain sluggish in '08.

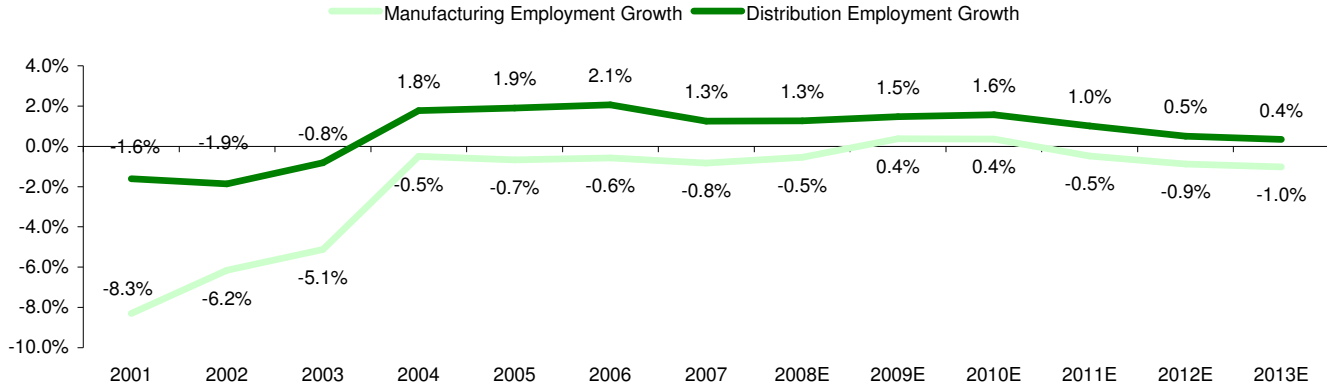


Source: Office of Trade and Industry Information, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce.

XI. U.S. Industrial Market Update (cont'd)

Manufacturing Versus Distribution Employment Growth

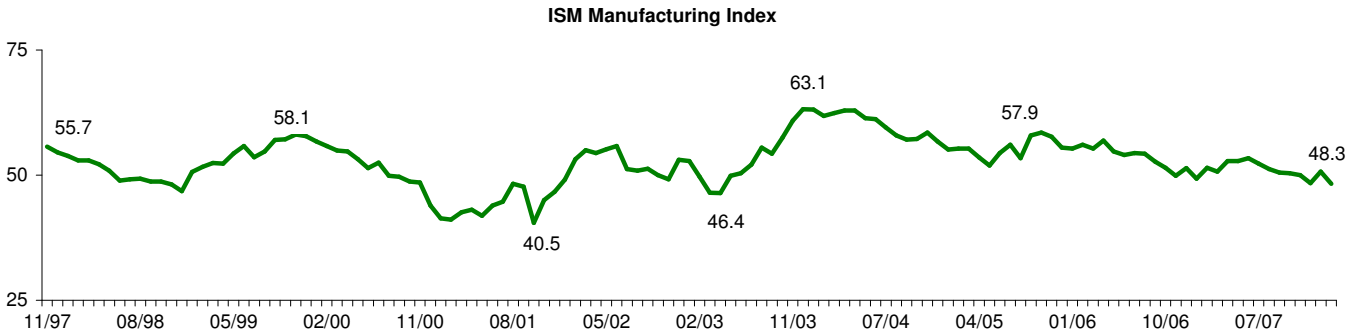
The significant industrial net absorption gains of the past three years have been closely correlated with strong distribution employment growth. Declining growth for distribution jobs is projected going forward which could indicate slowing demand for industrial space. Manufacturing will not likely fill the "demand gap" since the sector is expected to barely expand despite a favorable US currency.



Source: Torto Wheaton Research.

ISM Manufacturing Index

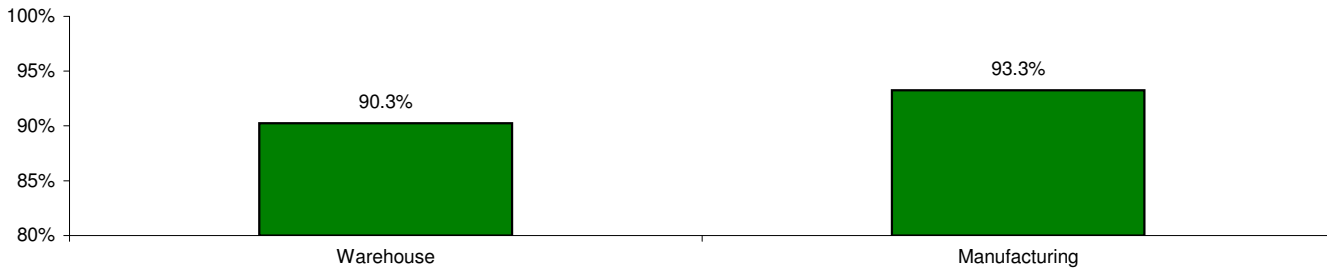
U.S. manufacturing output has declined since '03 as more production was outsourced to emerging markets (Asia, Mexico, and Eastern Europe). The ISM Manufacturing Index has been fairly stable since January '07. The index now stands slightly below 50 (indicating slight contraction in the manufacturing economy).



Source: Institute for Supply Management.

Occupancy By Property Type

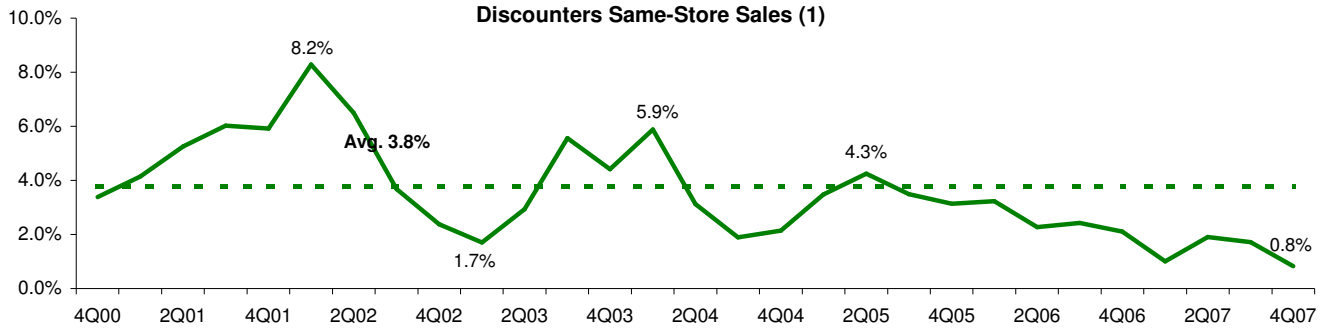
Manufacturing occupancy continues to be higher than warehouse distribution centers.



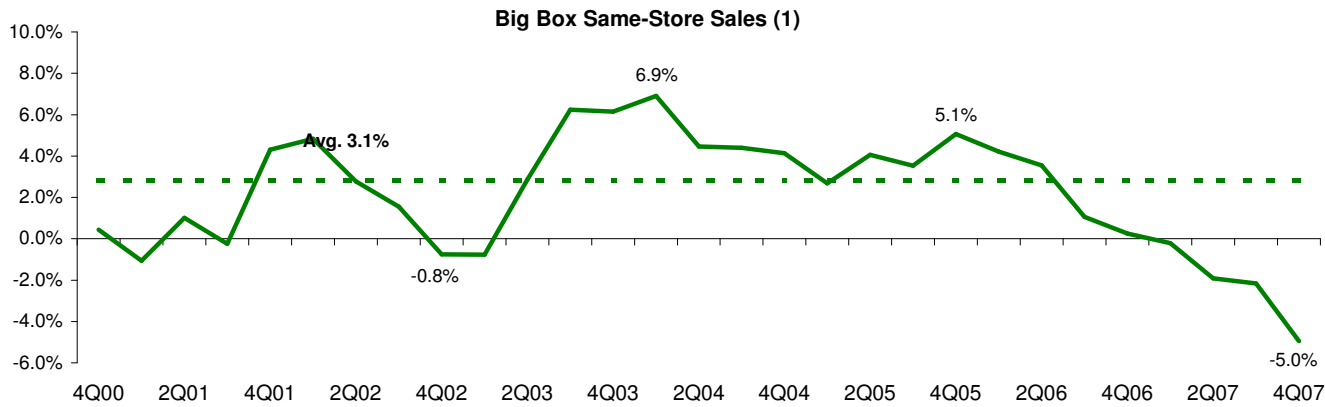
XI. U.S. Industrial Market Update (cont'd)

Retail Sales Slowing Down

Consumption patterns shape the demand for distribution space. Signs of a slowdown have appeared as big-box retailers and discounters have witnessed consecutive quarters of same-store sale declines. The current picture suggests that retailers may not increase their warehouse space requirements at the same pace as a few years ago.



(1) Wtd. avg. quarterly same-store sales for Wal-Mart, Target, and Kohls.

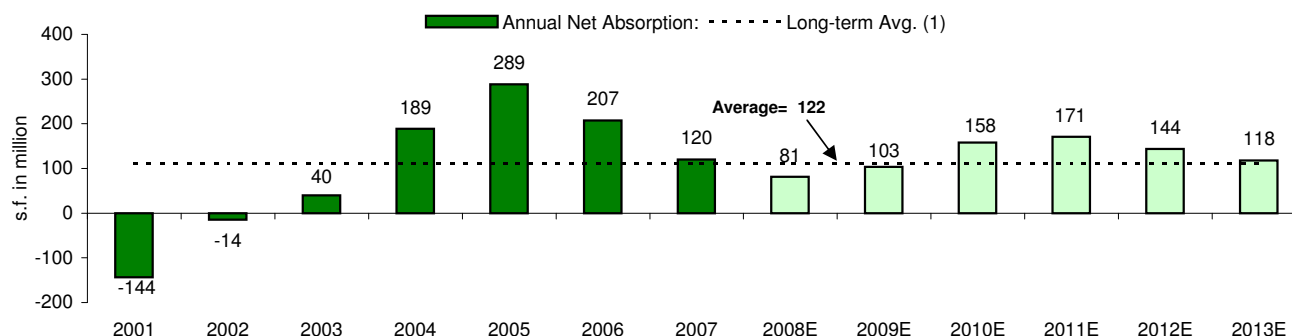


(1) Wtd. avg. quarterly same-store sales for group of big box retailers including Barnes and Noble, Linen's N Things, Lowe's, Home Depot, TJ Maxx, Ross Stores, Dollar Tree,

XI. U.S. Industrial Market Update (cont'd)

Slowing U.S. Net Absorption...

Net absorption is expected to continue a declining trend in '08. Torto Wheaton estimates that net absorption will rebound thereafter, but the forecast will greatly depend on the state of the economy at the time, a source of speculation at this point.

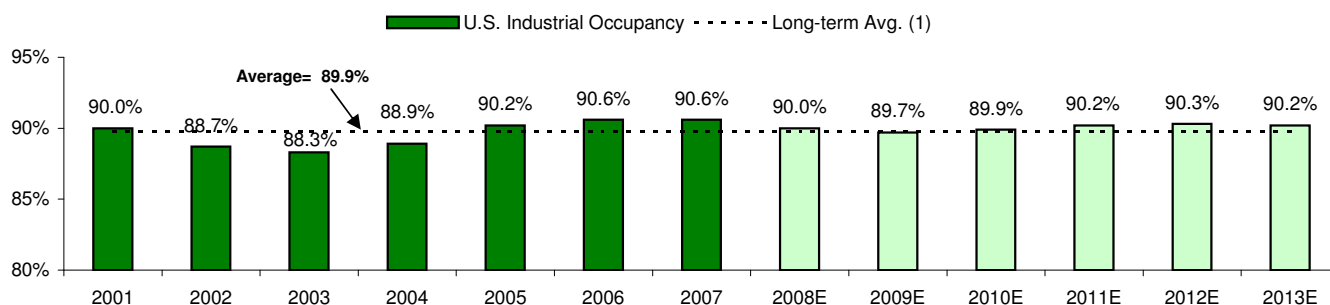


Source: Torto Wheaton Research.

(1) Represents annual average net absorption (2001-2013).

...and Occupancy...

The industrial market has been in equilibrium between demand and supply. Excess new supply will soon tip the scale and lead to lower occupancy levels.

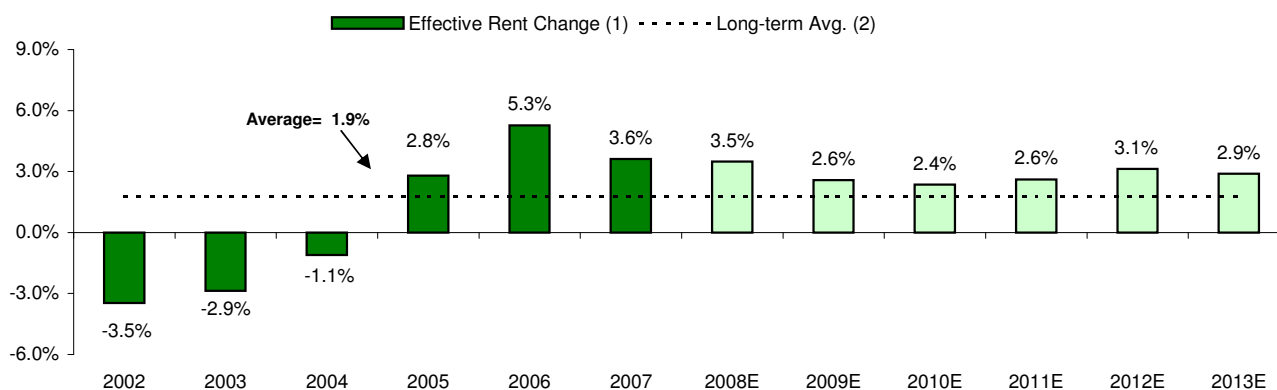


Source: Torto Wheaton Research.

(1) Represents annual average occupancy (2001-2013).

...will Pressure Rent Growth

Inflation-like rent growth is expected going forward. Softening demand conditions could negatively impact the Torto forecast. However, relatively high construction costs and low financing availability could help keep supply in check.



Source: Torto Wheaton Research.

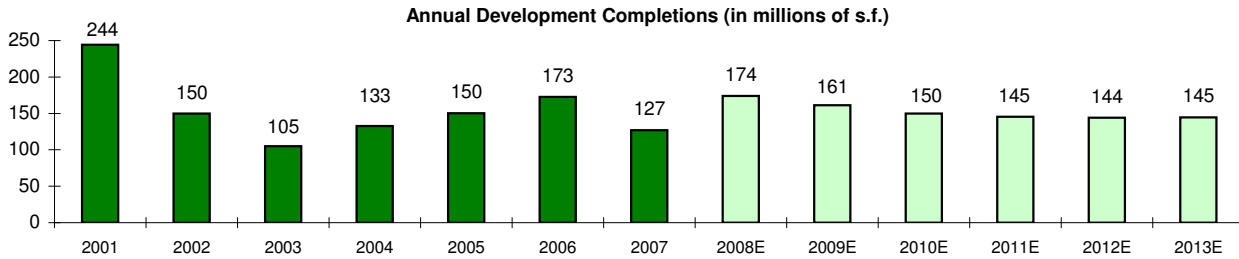
(1) The Torto Wheaton Rent Index - as defined by Torto Wheaton - equals effective rent.

(2) Represents annual average change in economic rents from 2001-2013.

XI. U.S. Industrial Market Update (cont'd)

U.S. Development Completions

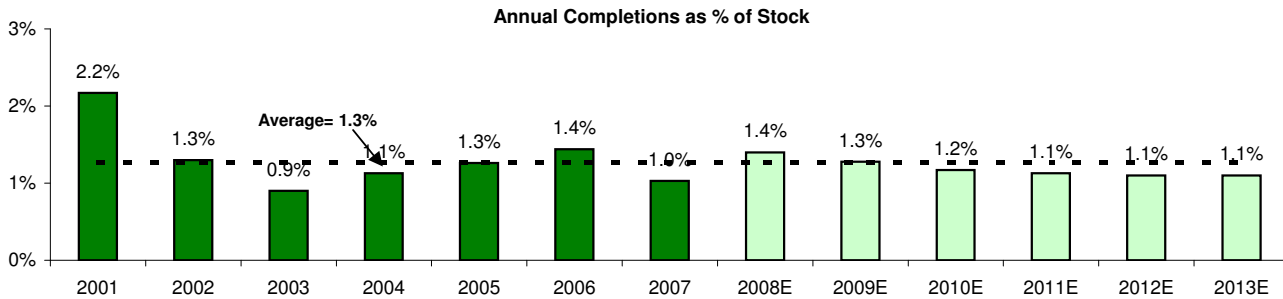
The relatively high development starts forecasted by Torto would greatly exceed expected demand. With the lack of debt financing available to many private developers, it is highly likely that development volumes will decline in '08 rather than increase from their '07 base.



Source: Torto Wheaton Research.

Annual Completions as a Percentage of Stock

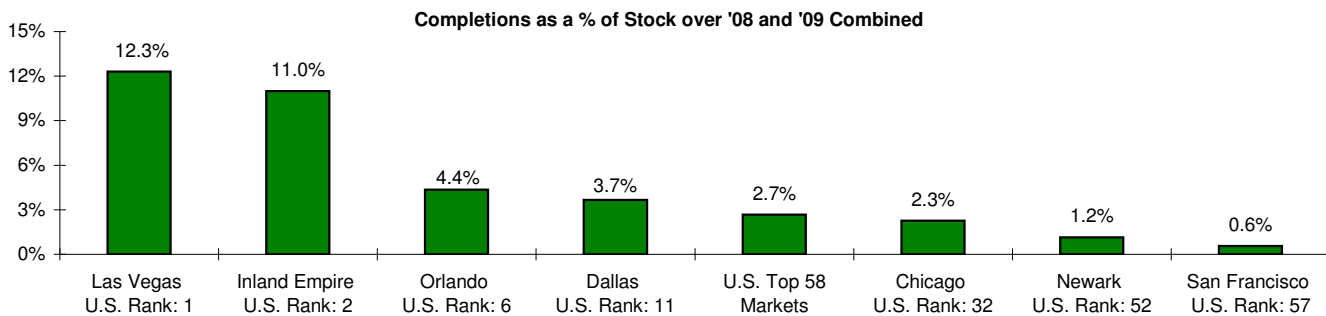
Development completions as a percentage of the entire U.S. market are well below the level that would reasonably be expected simply to replace obsolete stock.



Source: Torto Wheaton Research.

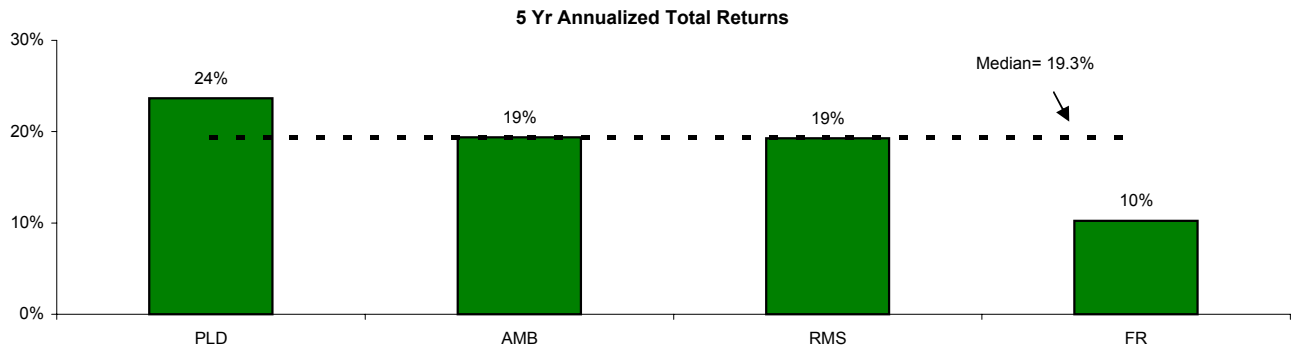
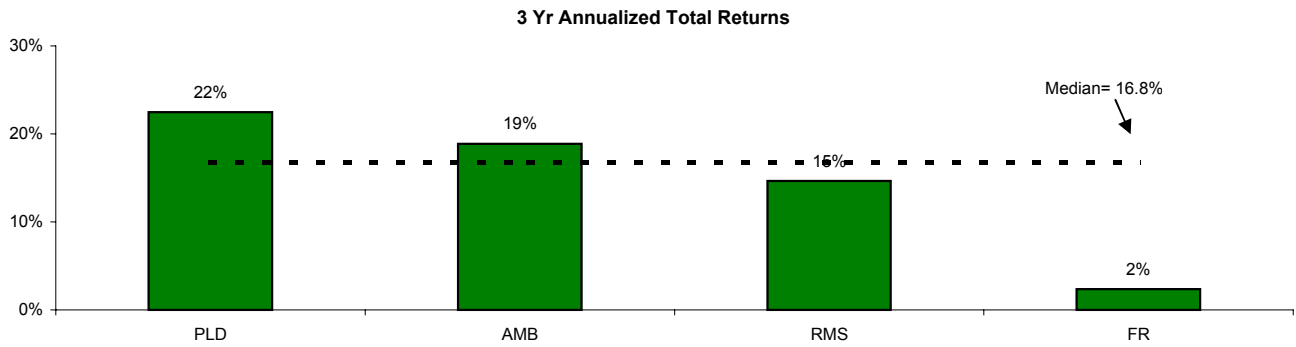
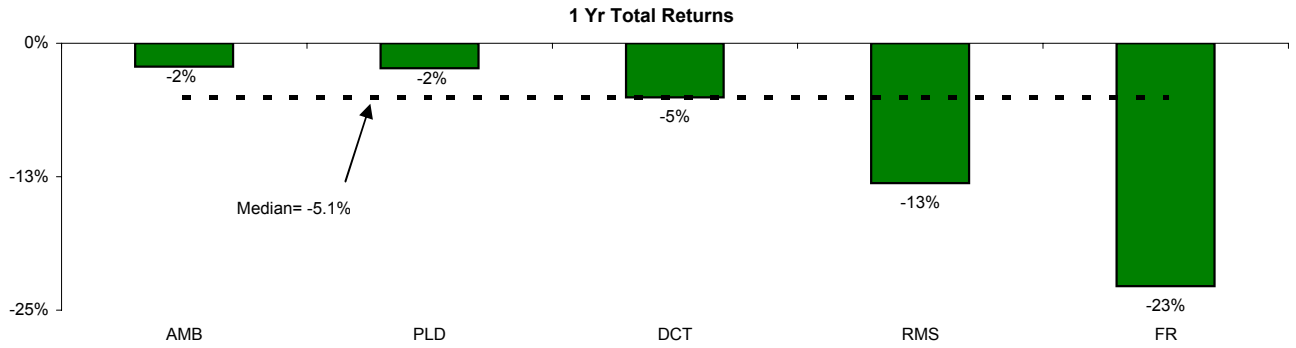
Construction as Percentage of Stock in Selected REIT Markets

Several markets will be tested with sizable new supply over the next two years. Las Vegas could see new construction equal to 12.3% of existing stock which may prove difficult to absorb. The Inland Empire faces the second most construction in the U.S. with completions totaling about 11% of existing supply. Recent slowdowns in activity at the ports of Los Angeles and Long Beach increase the risk associated with large development deliveries. By contrast, infill markets in New Jersey and San Francisco will benefit from relatively little new supply.



Source: Torto Wheaton Research.

Total Returns

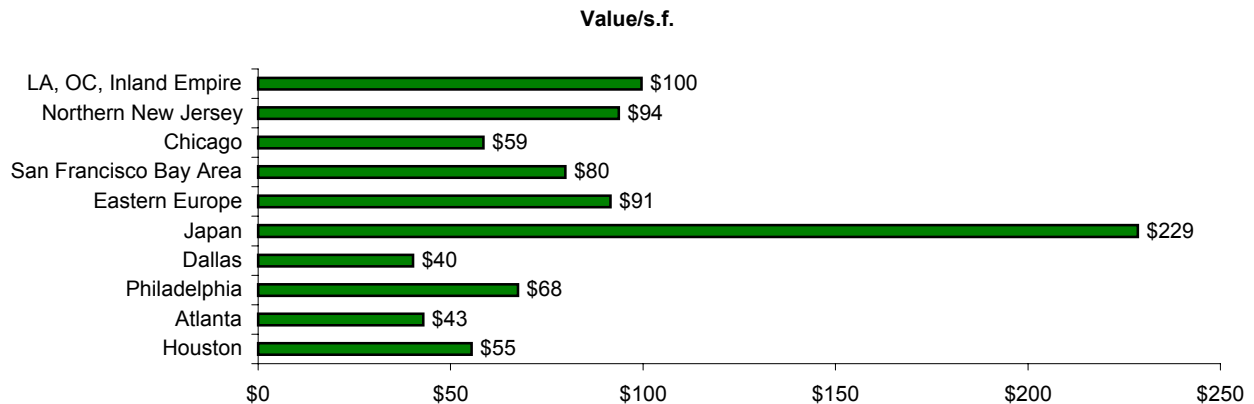
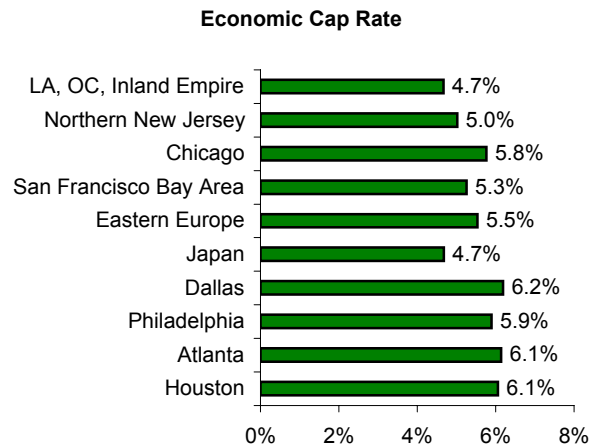
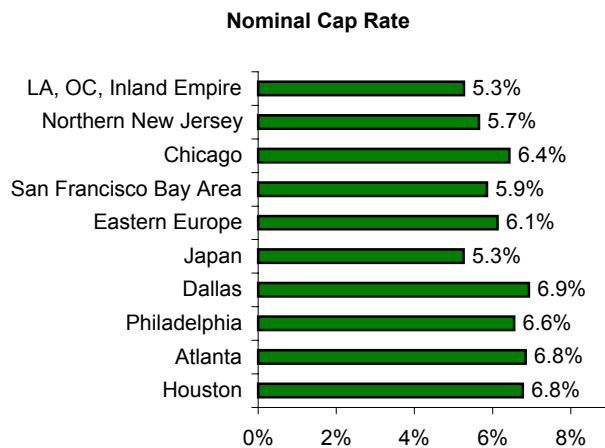
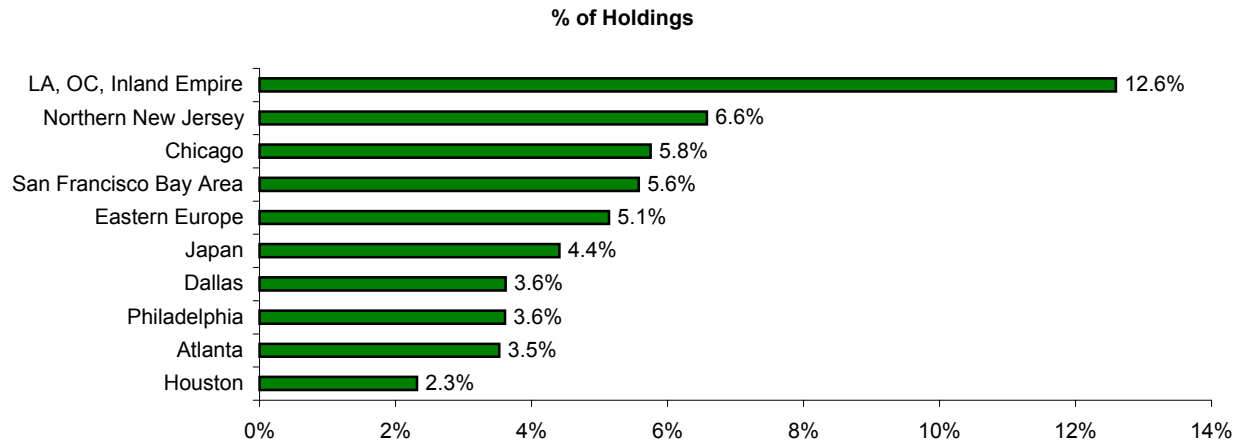


Source: Bloomberg, as of 4/3/08.

Appendix B

Industrial REIT Top Markets Valuation Summary

The LA/OC/Inland Empire market represents roughly 12.5% of total operating asset value in our coverage universe. Seven of the top 10 REIT markets (representing ~40% of total value) are in key U.S. coastal and inland port markets. Given the importance of ports in the global flow of goods, this value concentration should not be surprising.



Appendix C

The "Top 16" markets represent about 60% of our industrial-REIT coverage universe. These top 16 markets exhibit operating fundamentals that are largely in line with the average across the U.S. Vacancy is expected to rise through '09 as absorption weakens in port markets due to declining growth in U.S. imports. While demand will likely taper off, supply will be in check as development completions as a percentage of stock are expected to remain at about 1.5%.

Top 16 U.S. Industrial Markets Key Statistics

Metro	Employment Growth			Vacancy			Net Absorption (millions)			Completions as a % of Stock		Effective Rent Growth (2)	
	'08E	'09E	'10E	'08E	'09E	'10E	'08E	'09E	'10E	'08E	'09E	'08E	'09E
Atlanta	2.1%	2.3%	2.4%	13.1%	13.1%	13.0%	6.4	8.2	9.4	1.7%	1.7%	3.7%	3.2%
Baltimore	0.6%	0.6%	0.7%	13.4%	13.1%	12.8%	2.2	2.3	2.2	1.0%	1.0%	7.9%	6.9%
Boston	0.8%	0.9%	0.9%	13.7%	13.3%	12.9%	5.1	3.7	3.6	0.6%	0.5%	3.2%	4.1%
Chicago	0.6%	0.7%	0.7%	11.9%	13.4%	13.2%	-4.9	-5.7	11.4	1.1%	1.0%	-0.4%	-1.6%
Dallas	1.2%	1.5%	1.7%	12.5%	13.4%	12.8%	0.1	1.9	6.8	1.5%	1.0%	-0.9%	-0.6%
Denver	1.2%	1.5%	1.6%	10.6%	10.2%	9.8%	1.5	2.7	3.1	1.0%	1.0%	1.1%	2.2%
Houston	0.9%	1.0%	1.1%	7.2%	7.8%	8.0%	5.2	3.8	5.1	1.6%	1.5%	4.8%	3.8%
Los Angeles (Inland Empire)	2.9%	3.3%	3.4%	8.8%	9.8%	10.1%	18.9	18.9	17.6	6.1%	4.7%	-0.1%	-0.5%
Memphis	1.1%	1.6%	1.6%	19.2%	17.9%	17.1%	3.7	3.8	3.1	1.4%	1.3%	3.4%	4.1%
Miami	1.9%	2.2%	2.3%	9.6%	10.6%	10.7%	0.6	0.5	1.8	1.4%	1.0%	-2.9%	3.5%
Minneapolis	0.9%	1.0%	1.1%	9.3%	9.3%	8.6%	-0.1	3.0	4.5	1.0%	0.8%	1.1%	1.8%
Newark	0.8%	0.6%	0.8%	7.6%	7.2%	6.8%	1.5	1.9	1.6	0.5%	0.5%	1.8%	2.8%
Orlando	3.3%	3.5%	3.6%	7.6%	7.4%	7.0%	2.7	3.1	3.3	2.0%	1.9%	3.5%	4.6%
Philadelphia	0.3%	0.5%	0.6%	10.6%	11.6%	12.1%	0.7	-1.3	0.4	0.8%	0.7%	4.7%	2.5%
San Francisco	0.3%	0.0%	0.3%	7.2%	7.7%	6.4%	-1.9	-0.3	1.6	0.3%	0.3%	4.9%	4.0%
Seattle	1.6%	1.7%	1.9%	6.8%	6.8%	6.4%	3.5	3.9	5.3	1.6%	1.5%	1.7%	2.0%
Average	1.3%	1.4%	1.5%	10.6%	10.8%	10.5%	2.8	3.2	5.1	1.5%	1.3%	2.4%	2.7%
Top 58 Markets	1.3%	1.5%	1.6%	10.0%	10.3%	10.1%	81.4	103.4	158.1	1.3%	1.2%	2.6%	2.4%

Source: Torto Wheaton 4Q07.

(1) Sorted alphabetically by metro

(2) Effective rent is based on the Torto Wheaton Warehouse Rent Index.

Note: Company Snapshots Removed from sample report.

Please see website for sample snapshot.

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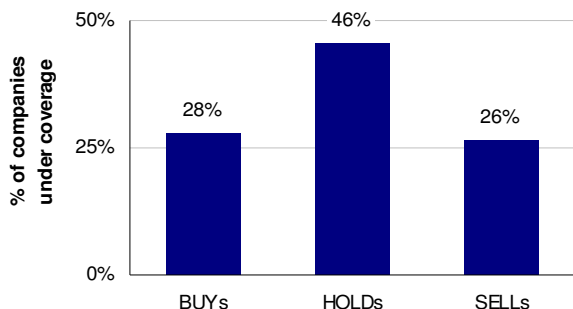
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Total Return of Green Street's Recommendations

Year	Buy	Hold	Sell	NAREIT Eqty ⁴
2008 YTD ³	12.3%	11.3%	6.1%	1.4%
2007	-6.5%	-22.3%	-27.6%	-15.7%
2006	45.4%	29.9%	18.4%	35.1%
2005	26.3%	18.3%	-1.9%	12.2%
2004	42.3%	28.4%	15.6%	31.6%
2003	42.7%	37.2%	20.9%	37.1%
2002	17.7%	2.6%	1.9%	3.8%
2001	35.7%	19.1%	11.9%	13.9%
2000	53.6%	29.3%	4.4%	26.4%
1999	14.2%	-9.2%	-20.2%	-4.6%
1998	-0.6%	-15.1%	-16.4%	-17.5%
1997	37.1%	14.2%	5.8%	20.3%
1996	47.3%	30.2%	17.5%	35.3%
1995	23.6%	14.3%	-0.4%	15.3%
1994	20.5%	-0.7%	-9.3%	3.2%
1993 ³	29.4%	5.4%	6.7%	12.4%
Total Return³	4137.8%	406.6%	18.4%	497.8%
Annualized	28.0%	11.3%	1.1%	12.5%

1) Historical results through January 3, 2005 were independently verified by Ernst & Young, LLP. E&Y did not verify stated results subsequent to January 3, 2005. Past performance results cannot be used to predict future performance. For a complete explanation of study, see 5/9/03 report "How are We Doing?".
 2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly", pg. 13-16. Beginning with May 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning with March 2003, all Hotel companies are excluded.
 3) Study uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 29, 1993 through April 1, 2008.
 4) Not directly comparable to Green Street's performance indices because NAREIT includes more companies and uses market-cap weightings. Green Street's returns are equally-weighted averages.