

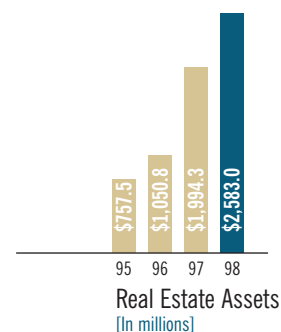
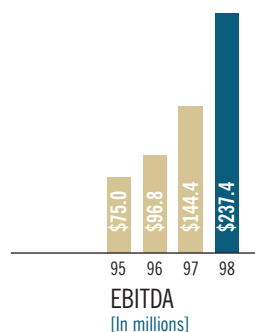
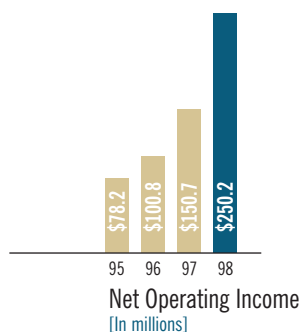
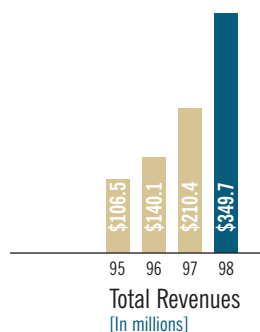
What it takes

to be a great
real estate
company...



First Industrial Realty Trust, Inc. [NYSE: FR] is one of the nation's largest providers of industrial real estate. We are focused on creating sustainable, long-term growth in per share cash flow for our shareholders through the efficient operation of our 69 million square foot portfolio, which is diversified across industrial-facility type, geographic location and customer base. We are uniquely able to serve our customers' industrial-space requirements through our national platform and full-service capabilities.





financial highlights

Financial [In thousands for year ended December 31]

	1998	1997	1996
Total Revenues	\$349,702	\$210,417	\$140,055
Net Operating Income	\$250,218	\$150,655	\$100,831
Funds From Operations [FFO]	\$133,148	\$92,361	\$60,546

Property Portfolio [At year end]

Number of In-Service Properties	987	769	379
Gross Leasable Area	69,253,383	56,567,706	32,700,069
Occupancy Rate	95.0%	95.6%	96.6%

Per Share Data On Common Stock

Dividends Declared	\$2.19	\$2.05	\$1.97
Annualized Dividend	\$2.40	\$2.12	\$2.02
Funds From Operations [FFO]	\$3.01	\$2.57	\$2.26
Return of Capital [Percentage of Dividend]	34.6%	35.6%	34.0%

“...it takes focus,
diversification,
operational
expertise,

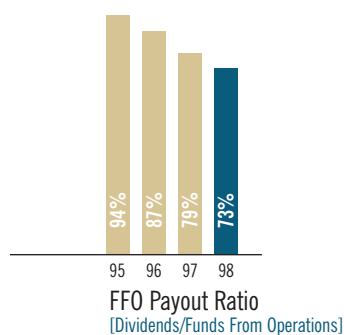
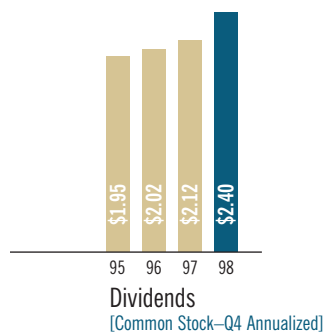
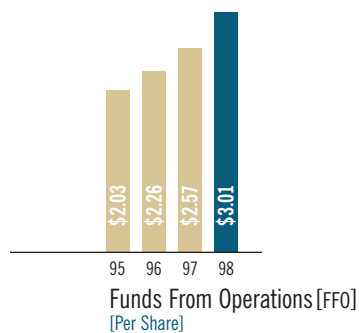


Michael W. Brennan
President and Chief Executive Officer

record operating results

Dear Shareholders: First Industrial's performance in 1998 demonstrated that we have what it takes to be a great real estate company. For the fourth consecutive year, we achieved record operating results. Our remarkable growth, during a time of transition in the REIT industry's capital markets, reflects our operational, organizational and financial strength.

superior talent...



We improved nearly every aspect of our performance. Revenues for the year increased 66%, while Funds From Operations (FFO), the industry's standard measure of earnings, increased 17% per share to \$3.01. Our FFO payout ratio, which divides dividends per share by FFO per share, has continued its favorable downward trend to 72.5% for the year. In light of our strong results and positive outlook for the future, we also increased our quarterly dividends for common shareholders to \$2.40 per share annually for 1999, from \$2.12 annually in 1998.

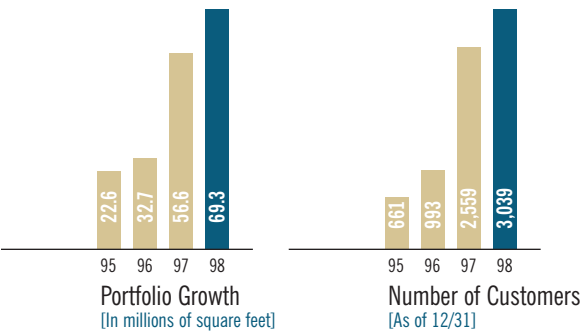
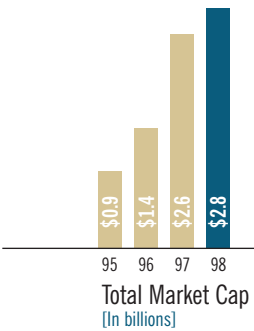
Average occupancy of our entire 69.3 million square foot portfolio remained high at 95%. Our customers renewed their leases on 70% of the 14.4 million square feet of space that came up for renewal in 1998, one of the highest tenant-retention rates in the industry. Our strong occupancy levels and tenant-retention rates reflect a healthy demand for our properties. Rental rate increases for the year were the best in our history, increasing an average of 6.6%.

The demand for our properties and the superior service provided by our local managers enabled us to increase – and further diversify – our customer base in 1998. Our customer base grew from 2,559 tenants in 1997 to 3,039 tenants, representing more than 600 different industries. As a result, no tenant or group of related tenants accounts for more than 1.1% of our rental revenues. We also entered six new geographic markets. We now own a total of 987 in-service facilities in 31 markets across the country – one of the nation's strongest and most diversified portfolios of industrial real estate.

Our progress in creating new business was equally impressive. When we formed First Industrial Development Services in July of 1996, our goal was to join the ranks of the nation's largest industrial developers within five years. We achieved that goal in 1998 by placing 2.6 million square feet of new, high-quality industrial space into service, focusing primarily on lower-risk build-to-suit projects. Our ability to accomplish our goal well ahead of schedule underscores the depth of our organization and the confidence and loyalty of our customers.

Another key capability of Development Services is redevelopment. We will purchase older, well-located properties at a discount to their replacement cost, rejuvenate them and then lease the redeveloped facilities at premium rates. Since 1996, we have redeveloped approximately 3 million square feet of properties.

We also strengthened our balance sheet by lengthening our debt maturities. We completed refinancing transactions in early 1998, taking advantage of favorable conditions in the debt markets. Our average debt maturity is now 12 years, one of the longest in our industry. With no significant debt maturing until 2001, we have limited our near-term refinancing risk. As the first step in a longer-term plan to establish alternative sources of capital, we also entered into our first joint venture arrangement with The Carlyle Group, based in Washington, D.C. With approximately \$1.1 billion in assets, The Carlyle Group's Realty Partners' organizational and financial resources are well-matched to our size and strategies, and we look forward to working with them in the years ahead.



a challenging environment

While 1998 was our best operational year yet, our progress is not reflected in the price of our stock. Turmoil in the equity markets for the REIT industry brought down the prices of nearly every REIT stock – the total return for the NAREIT equity index was a negative 17.5%. Our total return was down 19.7%.

As painful as it has been, the correction in the market may, in the end, be the best thing that has happened to our industry and our company. Early in 1998, investors began to perceive that income-producing properties were rapidly increasing in value, and they became concerned that this increase would encourage a wave of new construction, which would lead to an oversupply of properties – and lower rents. Many of the investors' concerns were sound. In certain areas and among certain types of real estate, prices had gone too high. At the same time, readily available bank loans and commercial mortgage-backed securities made overbuilding even more likely. What's more, investors were correct in surmising that few companies had developed strategies to achieve meaningful growth without additional capital. Although we believe these concerns have swung the pendulum too far toward the side of pessimism, the correction has largely achieved its purpose. Prices have stabilized and new construction levels have dropped, helping to maintain a healthy balance between supply and demand. The correction also has exposed the strategic weaknesses of some of our competitors, who lack the means to succeed in a capital-constrained environment.



achieving success

Most of all, the correction has revealed what it takes to be an enduring, well-run real estate company: focus, diversification, operational expertise and superior talent. These four ***pillars of excellence*** create a foundation for long-term, stable growth at every point in the economic cycle.

Industrial Focus To make the best use of its resources and operate most efficiently, a great real estate company must first choose its product wisely by focusing on a single real estate asset category. First Industrial has chosen to focus on the industrial sector. Not only is industrial real estate the largest asset category in the U.S. with 20 billion square feet, it is also the most stable and best performing of all commercial sectors over the last 20 years.

Diversification Second, a great real estate company makes a concerted, continuous effort to diversify its portfolio of assets. Diversification helps stabilize cash flow and enables a company to outperform its competitors over the long term. We are the only national industrial real estate company that has diversification across three critical segments: geographic, customer mix and industrial facility type. Our geographic diversification limits the impact of economic downturns in any particular region or market. A diversified customer base protects the company from undue exposure to any one customer, industry or business. Diversified facilities help to protect against the risk of an oversupply of any one type of property, such as bulk warehouse or R&D facilities. The benefits of this three-way diversification are predictable cash flow and highly stable dividends. Diversification also allows us to offer our customers unique, single-source solutions to their industrial-space requirements and gives us a greater array of investment opportunities.

Operational Expertise Third, a great real estate company continuously works to add value to every aspect of its operations.

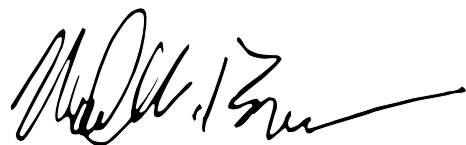
- We are striving to be the most efficient company in our industry. In the fourth quarter of 1998, we completed a reorganization and cost-reduction plan that removed more than \$10 million in expected costs from our system. The consolidation of eight regions into three streamlined our organization, extracted additional economies of scale and enhanced our ability to do business. We continue to evaluate new ways to streamline costs and achieve greater efficiencies.
- We have toughened our investment standards by raising our return requirements and emphasizing value-added transactions. We will focus on single asset, “one-off” acquisitions in our existing markets, plus lucrative development and redevelopment projects.
- Through our new First Services division, created in 1998, we will capitalize on our size and growing economies of scale to generate new revenues and exploit the significant purchasing power achievable only through a large portfolio of properties.
- Our ongoing property sales program will allow us to generate funds internally, reducing our need to seek additional outside capital. The sales program also demonstrates that we have the ability and discipline to actively manage our portfolio by cashing in on fully valued investments and redeploying the funds into higher-yielding projects or pay down debt.

**First Industrial Realty Trust, Inc.
Investment Grade Ratings**

Rating Agency	Prospective Senior Unsecured Debt	Prospective Cumulative Preferred Stock
Standard & Poor’s Ratings Group	BBB	BBB-
Moody’s Investors Service	Baa2	Baa3
Duff & Phelps’s Credit Rating Co.....	BBB	BBB-
Fitch Investors Service, Inc.....	BBB+	BBB

Superior Talent Finally, a great real estate company is run by a management team with well-rounded skills and significant local market expertise. Our managers have in-depth experience in portfolio management, leasing, acquisitions, development and redevelopment. What’s more, we combine these broad skills with an excellent understanding of the conditions and opportunities in each of our local markets. This translates into an exceptional ability to serve our customers, as shown by our high occupancy and tenant-retention rates.

In the months and years ahead, we will continue to concentrate on these four pillars, which are discussed in more detail on the following pages of this report. In 1999, we plan to achieve growth in earnings without relying on additional public capital. Beyond 1999, we will continue to build upon our pillars of excellence, applying the strength of our balance sheet and leveraging our advantages of scale to achieve stable, profitable growth. With the continued support of our customers, shareholders and employees, these are goals we are confident of reaching.



Michael W. Brennan
President and Chief Executive Officer



“we have what it takes –
the four pillars of
excellence...”

p i l l a r s o f e x c e l l e n c e

“...a great real estate company
chooses its
product wisely...”

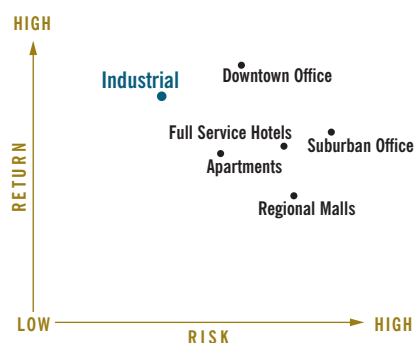




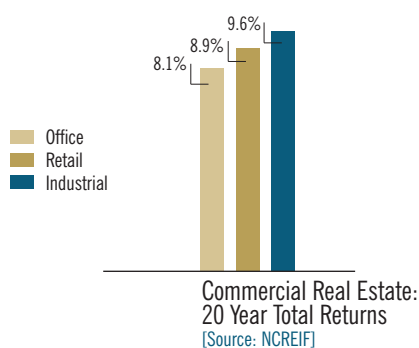
industrial focus

In real estate and nearly every other industry, top-performing companies share a sharp focus. At First Industrial, our only business is industrial real estate. We give it our undivided attention, which means that our customers can count on unsurpassed service, and our shareholders can find the long-term value and stability they seek.

We focus on industrial real estate because it offers advantages not found with other types of properties, such as offices, retail shopping malls, apartments or hotels. The advantages include greater stability – in fact, no commercial property sector has offered more consistent returns to investors, year after year. Industrial properties are less volatile because they have shorter construction cycles. With a relatively simple



Property Type Risk/Return: 1999
[Source: Emerging Trends in Real Estate 1999, Lend Lease Real Estate Investment and PricewaterhouseCoopers]



Commercial Real Estate:
20 Year Total Returns
[Source: NCREIF]

design, an industrial facility can be completed, from start to finish, in as little as six months. In contrast, a complex structure such as an office building can take as long as five years to build. Shorter construction cycles are important because they reduce construction backlogs, which makes it easier to balance supply and demand, and to limit the risk of overbuilding. And because an oversupply of industrial properties is rare, national industrial occupancy rates have remained high, averaging 92% over the past 20 years. Consistent cash flow results from stable occupancy rates and enhances the ability to offer safe, uninterrupted dividends to shareholders.

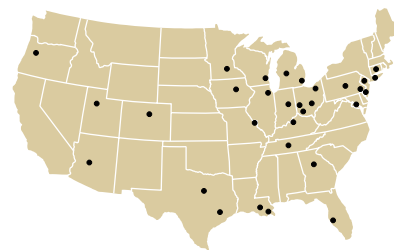
Industrial properties also have important operational advantages. They require less management personnel than other types of properties, while leasing expenses and capital expenditures are low. Most of our leases are structured as net leases, so tenants are responsible for most of the properties' operating costs. Additionally, many of our customers make significant investments within our facilities, which means low turnover and strong lease-renewal rates.

Customers benefit from our focus as well. By concentrating on industrial real estate, our managers have gained the in-depth experience, industry knowledge and personal contacts needed to identify and capitalize on new opportunities and offer the best solutions. What's more, our focus helps assure superior quality and service. *We have to be the best at what we do, because it's all we do.*

diversification

For First Industrial, our three-way diversification equals strength. Strength to offer our customers the best selection of products and comprehensive service. Strength to deliver stable, consistent earnings. Strength to build long-term value while limiting risk.

We are diversified geographically. In 1998, we reached our goal of building an organization that spans the country. With properties in 31 key markets, we can serve our customers wherever they do business. Geographic diversification also helps limit



Geographic Diversification
[31 markets]

“...a great real estate company

the impact of economic volatility in any particular region, which helps balance our performance and reduce our risks. We are also diversified within each of our markets. Over the next ten years, no more than 3% of our current rental revenue base in any specific market comes up for renewal in any given year, thus assuring strong demand for our properties as well as stable revenues.

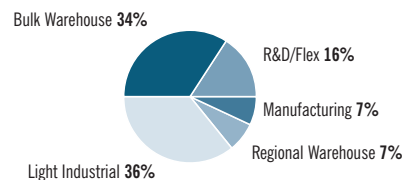
We benefit just as much from a diversified customer base. Over 600 industries are represented by our 3,039 tenants, which range from solid, middle-market companies to Fortune 500 companies. No tenant or group of related tenants represents more than 1.1% of our rental revenues. A broad customer mix helps us control the risks of a slowdown in any one type of industry and demonstrates our ability to satisfy Corporate America's broad range of industrial-space needs.

We also are diversified by facility type. Our expertise extends across the entire spectrum of industrial real estate, including bulk and regional warehouses, light industrial, R&D/flex and manufacturing facilities. Combining our national, diversified portfolio with our development and redevelopment expertise allows us to offer our customers comprehensive single-source solutions to their industrial real estate requirements, while limiting risks associated with any one type of property. Customers such as General Electric, Airborne Express, GATX, General Medical and Best Buy have benefited from the “one-stop shopping” we offer as a result of our full-service capabilities. Few, if any other, companies in our industry can offer customers a broader range of creative solutions.

As companies seek to improve every aspect of their operations, from the manufacturing and distribution of goods to supply-chain management, it's no wonder that our customer relationships continue to grow. We have the strength to meet our customers' needs and expand along with them, wherever new opportunities lead.

Examples of our customers at multiple facilities

AT&T Corporation
Best Buy Company, Inc.
Exel Logistics, Inc.
Federal Express Corporation
Gannett Satellite Information Network, Inc.
GATX Logistics, Inc.
General Electric Company
ITT Corporation
Johnson Controls, Inc.
Lucent Technologies, Inc.
Motorola, Inc.
MSX International Engineering
NCR Corporation
Newsday, Inc.
J.C. Penney Company, Inc.
Sears Roebuck & Company
Tribune Company



Facility Diversification
[By base rent as of 12/31/98]

p i l l a r s o f e x c e l l e n c e

diversifies its
assets...”



operational expertise

Our industrial focus and diversification provide a strong foundation for success. We concentrate on what has proven to be the most stable type of property, while we gain the ability to improve our service and limit our risks. But that's only the start. Our goal is to outperform other industrial real estate companies – and the entire real estate industry. And we will do it with superior operations.

To build more value, we optimize the strengths of our portfolio and our people. One example is First Industrial Development Services. Our development and

Sales

	Properties	Square Feet	Net
1996	6	420,000	\$16.4M
1997	11	833,000	\$33.6M
1998	41	2,000,000	\$98.3M

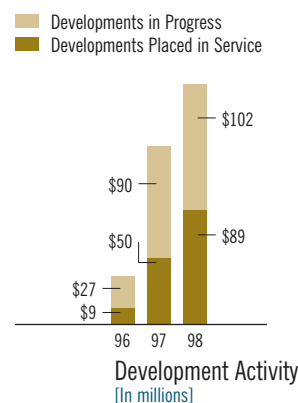
“...a great real estate company

redevelopment capabilities allow us to respond to our customers' changing space requirements and achieve high-yielding returns. Many of our development projects are typically low-risk build-to-suit projects for existing customers and are significantly pre-leased before construction begins. Our redevelopment projects increase the usefulness of – and the rents from – existing facilities. Both types of projects improve our portfolio quality and prospects for the future.

Another way we increase our value is to actively manage our portfolio. Experienced asset managers continuously monitor each property's performance in its particular market and in relation to our entire portfolio. Mature or underperforming properties are sold, with the proceeds devoted to higher-yielding investments. In 1998, we sold 41 properties totaling 2 million square feet, or 3% of our portfolio, for \$98 million, generating an unleveraged internal rate of return of 16%.

Our ability to efficiently recycle fully-valued assets into fresh capital allows us to continue our progress during challenging times in public capital markets. A new strategic alliance adds even more resources for growth. In 1998, we formed a co-investment partnership with The Carlyle Group, a Washington, D.C.-based private-equity investment firm, and together we acquired \$269 million of industrial properties. First Industrial was able to tap into an alternative source of capital, efficiently obtain quality properties at profitable yields and gain new fee-based revenues. In 1999, we plan to complete additional joint investments.

As we have grown, we have gained greater economies of scale and the ability to develop new sources of income. Established in 1998, First Services will help us capitalize on these advantages by leveraging the efficiencies found in our 69.3 million square foot portfolio and generating ancillary revenues. Our national portfolio and superior operations open a world of opportunities for creating new value and unlocking new growth.



p i l l a r s o f e x c e l l e n c e

adds value to its
operations...”



p i l l a r s o f e x c e l l e n c e

“...a great real estate company
is **managed** by



superior talent

Although First Industrial is a real estate company, it hasn't been built with bricks and mortar. It has been built by people – people with strong roots in their communities and years of experience in industrial real estate.

With an average of more than 20 years in industrial real estate, our managers know their business. Their unsurpassed knowledge of portfolio management, development, redevelopment, acquisitions and sales, combined with a keen commitment to highly professional and personalized service, helps us make the most of our portfolio

strong industry professionals...”



and our relationships with customers. In addition to marketing our properties – often to customers they have served for years – our managers keep us informed of changes in market conditions and provide first-hand insights into local opportunities and potential risks. We have the full spectrum of skills and the broad perspective necessary to navigate through the changes of a dynamic industry. We understand how to find the best opportunities and how to grow through all the markets' ups and downs. And we bring our knowledge and dedication to every customer, every day.

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Working together, we will continue our progress. Focusing on industrial properties, we will apply our in-depth expertise for the benefit of our customers. Our broadly diversified, national portfolio provides the geographic reach and the range of solutions to meet our customers' evolving needs and control our risks. We will find new savings, new opportunities and new sources of capital, as one of the best teams in the business continues to set new standards of performance. Even in challenging times, we have the properties, the people and the power to create value and continue our profitable, long term growth. With these four pillars of excellence, we continue to build a great real estate company for the ultimate benefit of our shareholders.



Directors

Jay H. Shidler^{§‡}
Chairman
First Industrial Realty Trust, Inc.
President
The Shidler Group
Chairman
Corporate Office Properties Trust, Inc.
and *CGA Group, Ltd.*

Michael W. Brennan^{§‡}
President and
Chief Executive Officer
First Industrial Realty Trust, Inc.

Michael G. Damone[‡]
Director of Strategic Planning
First Industrial Realty Trust, Inc.

John L. Leshner[†]
Chairman
Resource Evaluation, Inc.
Director
REL Consultancy Group

Kevin W. Lynch^{*}
Principal
The Townsend Group

John Rau^{§*}
President, Chief Executive Officer
and Director
Chicago Title Corporation

Robert J. Slater^{§†}
President
Jackson Consulting, Inc.
Director
Southdown, Inc.

J. Steven Wilson^{*}
Chairman, President and
Chief Executive Officer
Riverside Group, Inc.
Chairman and
Chief Executive Officer
Wickes Lumber Co.

§ Nominating Committee † Compensation Committee

* Audit Committee ‡ Investment Committee

Gary H. Heigl
Chief Operating Officer

Michael W. Brennan
President and
Chief Executive Officer

Johannson Lee Yap
Chief Investment Officer

Anthony Muscatello
President
Development Services

Michael J. Havala
Chief Financial Officer



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Selected Financial and Operating Data

[In thousands, except per share, ratio and property data]

	The Company						Contributing Businesses
	Historical Year Ended 12/31/98	Historical Year Ended 12/31/97	Historical Year Ended 12/31/96	Historical Year Ended 12/31/95	Pro Forma Year Ended 12/31/94	Historical Six Months Ended 12/31/94	Historical Six Months Ended 6/30/94
Statements of Operations Data:							
Total Revenues	\$ 349,702	\$ 223,203	\$ 140,055	\$ 106,486	\$ 87,923	\$ 46,570	\$ 22,816
Property Expenses	[99,484]	[59,762]	[39,224]	[28,302]	[22,714]	[11,853]	[6,036]
General & Administrative Expense	[12,983]	[6,248]	[4,018]	[3,135]	[2,310]	[1,097]	[795]
Interest Expense	[71,833]	[49,859]	[28,954]	[28,591]	[19,528]	[10,588]	[11,773]
Amortization of Interest Rate Protection							
Agreements and Deferred Financing Costs	[917]	[2,812]	[3,286]	[4,438]	[6,113]	[2,904]	[858]
Depreciation and Other Amortization	[63,805]	[39,573]	[28,049]	[22,264]	[19,189]	[9,802]	[4,744]
Management and Construction Income (Loss)	°	°	°	°	°	°	[81]
Equity in Income of Joint Venture	45	°	°	°	°	°	°
Income Allocated to Minority Interest	[7,961]	[5,312]	[2,931]	[997]	[1,405]	[778]	°
Disposition of Interest Rate Protection							
Agreements [A]	[8,475]	1,430	°	[6,410]	°	°	°
Restructuring and Abandoned Pursuit							
Costs Charge [B]	[11,941]	°	°	°	°	°	°
Gain on Sales of Properties	5,349	5,003	4,344	°	°	°	°
Income (Loss) Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	77,697	66,070	37,937	12,349	16,664	9,548	[1,471]
Extraordinary Loss [C]	°	[14,124]	[2,273]	°	°	°	[1,449]
Cumulative Effect of Change in Accounting Principle [D]	[1,976]	°	°	°	°	°	°
Net Income (Loss)	\$ 75,721	\$ 51,946	\$ 35,664	\$ 12,349	\$ 16,664	\$ 9,548	\$ [2,920]
Preferred Stock Dividends	[30,610]	[11,856]	[3,919]	[468]	°	°	
Net Income Available to Common Stockholders	\$ 45,111	\$ 40,090	\$ 31,745	\$ 11,881	\$ 16,664	\$ 9,548	
Net Income Available to Common Stockholders Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle Per Weighted Average Common Share Outstanding:							
Basic	\$ 1.26	\$ 1.72	\$ 1.37	\$.63	\$.92	\$.51	
Diluted	\$ 1.25	\$ 1.70	\$ 1.37	\$.63	\$.92	\$.51	
Net Income Available to Common Stockholders Per Weighted Average Common Share Outstanding:							
Basic	\$ 1.20	\$ 1.27	\$ 1.28	\$.63	\$.92	\$.51	
Diluted	\$ 1.20	\$ 1.26	\$ 1.28	\$.63	\$.92	\$.51	
Distributions Per Share	\$ 2.190	\$ 2.045	\$ 1.9675	\$ 1.905		\$.945	
Weighted Average Number of Common Shares Outstanding:							
Basic	37,445	31,508	24,756	18,889	18,182	18,181	
Diluted	37,627	31,814	24,842	18,889	18,182	18,181	
Balance Sheet Data (End of Period):							
Real Estate, Before Accumulated Depreciation	\$ 2,583,033	\$ 1,994,346	\$ 1,050,779	\$ 757,516		\$ 669,608	\$ 597,504
Real Estate, After Accumulated Depreciation	2,407,147	1,873,316	959,322	688,767		620,294	556,902
Total Assets	2,554,462	2,272,163	1,022,600	753,904		691,081	616,767
Mortgage Loans, Net, Acquisition Facilities Payable, Senior Unsecured Debt, Net, Construction Loans and Promissory Notes Payable	1,191,882	879,592	406,401	399,958		348,700	305,000
Defeased Mortgage Loan Payable	°	300,000	°	°		°	°
Total Liabilities	1,310,518	1,266,079	447,178	426,972		374,849	323,703
Stockholders' Equity	1,054,776	854,590	532,561	306,023		292,420	269,326
Other Data:							
Cash Flows From Operating Activities	\$ 149,096	\$ 102,635	\$ 62,621	\$ 38,541		\$ 18,033	\$ 5,026
Cash Flows From Investing Activities	[535,554]	[805,505]	[240,571]	[84,159]		[73,840]	[374,757]
Cash Flows From Financing Activities	395,059	708,446	176,677	45,420		57,475	374,152
Funds From Operations ("FFO") [E]	133,148	92,361	60,546	41,428		20,128	3,273
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends [F]	1.62x	1.79x	1.88x	1.56x		1.76x	[G]
Total Properties [H]	987	769	379	271		246	226
Total GLA, in Square Feet [H]	69,253,383	56,567,706	32,700,069	22,562,755		19,169,321	17,393,813
Occupancy Percentage [H]	95%	96%	97%	97%		97%	97%

Selected Financial and Operating Data

[In thousands, except per share, ratio and property data]

[A] In conjunction with obtaining a \$300.0 million mortgage loan on June 30, 1994 (the "1994 Mortgage Loan"), the Company, through the Financing Partnership, purchased an interest rate protection agreement (the "1994 Interest Rate Protection Agreement") which effectively limited the interest rate during the initial five-year term of the 1994 Mortgage Loan to 7.20% per annum. Effective July 1, 1995, the Company replaced the 1994 Interest Rate Protection Agreement with new interest rate protection agreements and entered into interest rate swap agreements (together, the "1995 Interest Rate Protection Agreements") which effectively fixed the annual interest rate on the 1994 Mortgage Loan at 6.97% for six years through June 30, 2001. As a result of the replacement of the interest rate protection agreement, the Company incurred a one-time loss of approximately \$6.4 million. On May 16, 1997, the Company sold the 1995 Interest Rate Protection Agreements resulting in a gain of approximately \$1.4 million. The \$8.5 million loss on disposition of interest rate protection agreements for the year ended December 31, 1998 represents the Company's settlement, through the Operating Partnership, of its remaining interest rate protection agreement which was scheduled to expire on January 4, 1999. This agreement was entered into in December 1997 in anticipation of 1998 senior unsecured debt offerings. Due to the changing market conditions and the Company's expectation that it would not issue debt securities associated with the interest rate protection agreement, the Company settled its position in the interest rate protection agreement.

[B] Represents a restructuring charge of \$6.9 million relating to severance costs (of which \$1.2 million is noncash relating to immediate vesting of restricted stock) and \$5.0 million in costs related to abandoned acquisitions.

[C] Upon consummation of the Initial Offering in June 1994, certain Contributing Businesses' loans were repaid and the related unamortized deferred financing fees totaling \$1.5 million were written off. In 1996, the Company terminated certain revolving credit facilities. The Company recorded an extraordinary loss of \$2.3 million which is comprised of a prepayment fee, the write-off of unamortized deferred financing fees, legal costs and other expenses. In 1997, the Company terminated certain mortgage loans, an unsecured loan and a revolving credit facility and obtained a commitment to pay off and retire another mortgage loan. The Company recorded an extraordinary loss of \$14.1 million which is comprised of prepayment fees, the write-off of unamortized deferred financing fees, legal costs and other expenses.

[D] In April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 requires that the net unamortized balance of all start-up costs and organizational costs be written off as a cumulative effect of a change in accounting principle and all future start-up costs and organizational costs be expensed. Consistent with SOP 98-5, in the second quarter of 1998, the Company has reported a cumulative effect of a change in accounting principle in the amount of approximately \$2.0 million to reflect the write-off of the unamortized balance of organizational costs on the Company's balance sheet.

Selected Financial and Operating Data

[In thousands, except per share, ratio and property data]

[E] Management considers funds from operations to be one financial measure of the operating performance of an equity REIT that provides a relevant basis for comparison among REITs and it is presented to assist investors in analyzing the performance of the Company. In accordance with the National Association of Real Estate Investment Trusts' definition of funds from operations, the Company calculates funds from operations to be equal to net income, excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, excluding amortization of deferred financing costs and interest rate protection agreements, and after adjustments for unconsolidated partnerships and joint ventures. Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs, including the payment of dividends and distributions. Funds from operations should not be considered as a substitute for net income as a measure of results of operations or for cash flow from operating activities calculated in accordance with generally accepted accounting principles as a measure of liquidity. Funds from operations as calculated by the Company may not be comparable to similarly titled but differently calculated measures of other REITs. The following is a reconciliation of net income to funds from operations:

[F] For purposes of computing the ratios of earnings to fixed charges and preferred stock dividends, earnings have been calculated by adding fixed charges (excluding capitalized interest) to income (loss) before extraordinary loss, cumulative effect of change in accounting principle, gain on sales of properties, restructuring and abandoned pursuit costs charge, disposition of interest rate protection agreements and income allocated to minority interest. Fixed charges consist of interest costs, whether expensed or capitalized, and amortization of interest rate protection agreement(s) and deferred financing costs.

[G] Earnings were inadequate to cover fixed charges by approximately \$1.4 million for the six months ended June 30, 1994, which period was prior to the Company's initial public offering.

[H] As of end of period and excludes properties under development.

	The Company					Contributing Businesses
	Year Ended 12/31/98	Year Ended 12/31/97	Year Ended 12/31/96	Year Ended 12/31/95	Six Months Ended 12/31/94	Six Months Ended 6/30/94
Net Income (Loss) Available to Common Stockholders	\$ 45,111	\$ 40,090	\$ 31,745	\$ 11,881	\$ 9,548	\$ [2,920]
Adjustments:						
Depreciation and Other Amortization	62,935	39,268	27,941	22,140	9,802	4,744
Equity in Depreciation and Other Amortization of Joint Venture	98	o	o	o	o	o
Cumulative Effect of Change in Accounting Principle	1,976	o	o	o	o	o
Restructuring and Abandoned Pursuit Costs Charge	11,941	o	o	o	o	o
Disposition of Interest Rate Protection Agreements	8,475	[1,430]	o	6,410	o	o
Gain on Sales of Properties	[5,349]	[5,003]	[4,344]	o	o	o
Extraordinary Items	o	14,124	2,273	o	o	1,449
Minority Interest	7,961	5,312	2,931	997	778	o
Funds From Operations	\$ 133,148	\$ 92,361	\$ 60,546	\$ 41,428	\$ 20,128	\$ 3,273

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with "Selected Financial and Operating Data" and the historical Consolidated Financial Statements and Notes thereto appearing elsewhere in this annual report.

First Industrial Realty Trust, Inc. was organized in the state of Maryland on August 10, 1993. First Industrial Realty Trust, Inc. is a real estate investment trust ("REIT") as defined in the Internal Revenue Code. First Industrial Realty Trust, Inc. and its subsidiaries (the "Company") began operations on July 1, 1994. The Company's operations are conducted primarily through First Industrial, L.P. (the "Operating Partnership") of which the Company is the sole general partner. The Company is the sole stockholder of First Industrial Finance Corporation, First Industrial Pennsylvania Corporation, First Industrial Harrisburg Corporation, First Industrial Securities Corporation, First Industrial Mortgage Corporation, First Industrial Indianapolis Corporation, FI Development Services Corporation and First Industrial Florida Finance Corporation, which are the sole general partners of First Industrial Financing Partnership, L.P. (the "Financing Partnership"), First Industrial Pennsylvania, L.P. (the "Pennsylvania Partnership"), First Industrial Harrisburg, L.P. (the "Harrisburg Partnership"), First Industrial Securities, L.P. (the "Securities Partnership"), First Industrial Mortgage Partnership, L.P. (the "Mortgage Partnership"), First Industrial Indianapolis, L.P. (the "Indianapolis Partnership"), First Industrial Development Services, L.P. and TK-SV, LTD., respectively. The Operating Partnership is the sole limited partner of the Financing Partnership, the Pennsylvania Partnership, the Harrisburg Partnership, the Securities Partnership, the Mortgage Partnership, the Indianapolis Partnership, First Industrial Development Services, L.P. and TK-SV, LTD. The Operating Partnership is also the sole member of limited liability companies (the "L.L.C.'s"), and the majority stockholder of First Industrial Enterprises of Michigan and FR Development Services, Inc. The Company, through wholly owned limited liability companies in which the Operating Partnership is the sole member, also owns a 10% equity interest in and provides asset and property management services to a joint venture which invests in industrial properties.

Results of Operations

Comparison of Year Ended December 31, 1998 to Year Ended December 31, 1997

At December 31, 1998, the Company owned 987 in-service properties containing approximately 69.3 million square feet of GLA, compared to 769 in-service properties with approximately 56.4 million square feet of GLA at December 31, 1997. During 1998, the Company acquired 247 properties containing approximately 12.3 million square feet of GLA, completed development of 12 properties and expansions of 2 properties totaling 2.6 million square feet of GLA and sold 41 in-service properties totaling 2.0 million square feet of GLA and several land parcels.

Rental income and tenant recoveries and other income increased in 1998 over 1997 by approximately \$139.3 million or 66.2% due primarily to the properties acquired or developed after December 31, 1996 (between January 1, 1997 and December 31, 1998, the Company acquired approximately \$1.4 billion of industrial properties). Revenues from properties owned prior to January 1, 1997 increased in 1998 over 1997 by approximately \$2.2 million or 1.5% due primarily to increased rental rates upon renewal or replacement of tenant leases offset by a decrease in tenant recovery income charges related to the decrease in operating expenses as discussed below.

Interest income-defeasance in 1997 represents interest income earned on U.S. Government securities and cash proceeds from such securities upon maturity that were pledged as collateral to legally defease the Company's \$300.0 million mortgage loan (the "1994 Defeased Mortgage Loan").

Property expenses, which include real estate taxes, repairs and maintenance, property management, utilities, insurance and other expenses, increased by approximately \$39.7 million or 66.5% due primarily to the properties acquired or developed after December 31, 1996 (between January 1, 1997 and December 31, 1998, the Company acquired approximately \$1.4 billion of industrial properties). Expenses from properties owned prior to January 1, 1997, decreased by approximately \$.5 million or 1.1% due primarily to a decrease in snow removal and related expenses incurred for properties located in certain of the Company's metropolitan areas during the year ended December 31, 1998 as compared to the year ended December 31, 1997.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General and administrative expense increased by approximately \$6.7 million, of which, approximately \$4.0 million is due primarily to the additional expenses associated with managing the Company's growing operations including additional professional fees relating to additional properties owned and additional personnel to manage and expand the Company's business. Approximately \$2.7 million of the increase is the result of the adoption of Emerging Issues Task Force Issue No. 97-11, "Accounting for Internal Costs Relating to Real Estate Property Acquisitions" ("EITF 97-11"), which requires that internal costs of preacquisition activities incurred in connection with the acquisition of an operating property should be expensed as incurred. The Company adopted EITF 97-11 on March 19, 1998.

Interest expense increased by approximately \$22.0 million for the year ended December 31, 1998 compared to the year ended December 31, 1997 due primarily to a higher average debt balance outstanding resulting from the issuance of unsecured debt to fund the acquisition and development of additional properties (between January 1, 1997 and December 31, 1998, the Company acquired approximately \$1.4 billion of industrial properties).

Amortization of interest rate protection agreements and deferred financing costs decreased by approximately \$1.9 million due primarily to the full amortization of the deferred financing costs relating to the Company's 1994 Defeased Mortgage Loan which was paid off and retired on January 2, 1998, offset by amortization of deferred financing costs relating to the issuance of additional senior unsecured debt.

Depreciation and other amortization increased by approximately \$24.2 million due primarily to the additional depreciation and amortization related to the properties acquired or developed after December 31, 1996 (between January 1, 1997 and December 31, 1998, the Company acquired approximately \$1.4 billion of industrial properties).

The \$11.9 million restructuring and abandoned pursuit costs charge for the year ended December 31, 1998 represents a charge in connection with the Company's restructuring, including approximately \$6.9 million in severance costs (of which approximately \$1.2 million is non-cash relating to immediate vesting of restricted stock) and approximately \$5.0 million in costs related to abandoned acquisitions.

Equity in Income of Joint Venture of approximately \$.05 million for the year ended December 31, 1998 represents the Company's 10% equity interest in the income of the September 1998 Joint Venture (hereinafter defined).

The \$8.5 million loss on disposition of interest rate protection agreements for the year ended December 31, 1998 represents the Company's settlement, through the Operating Partnership, of its remaining interest rate protection agreement which was scheduled to expire on January 4, 1999. This agreement was entered into in December 1997 in anticipation of 1998 senior unsecured debt offerings. Due to the changing market conditions and the Company's expectation that it would not issue debt securities associated with the interest rate protection agreement, the Company settled its position in the interest rate protection agreement.

The \$1.4 million gain on disposition of interest rate protection agreements for the year ended December 31, 1997 represents the sale of the Company's interest rate protection agreements in April 1997. These agreements were entered into in July 1995 and effectively fixed the annual interest rate on the 1994 Mortgage Loan at 6.97% for six years through June 30, 2001.

The \$5.3 million gain on sales of properties for the year ended December 31, 1998 resulted from the sale of 41 in-service properties and several parcels of land. Gross proceeds for these property sales totaled approximately \$99.9 million.

The \$5.0 million gain on sales of properties for the year ended December 31, 1997 resulted from the sale of ten in-service properties, one property held for redevelopment and several parcels of land. Gross proceeds for these property sales totaled approximately \$33.7 million.

The \$14.1 million extraordinary loss for the year ended December 31, 1997 represents the write-off of unamortized deferred financing costs, prepayment fees, legal fees and other costs incurred to terminate various mortgage loans, an unsecured loan and a revolving line of credit and the commitment to retire the 1994 Defeased Mortgage Loan.

The \$2.0 million cumulative effect of change in accounting principle for the year ended December 31, 1998 is the result of the write-off of the unamortized balance of organizational costs on the Company's balance sheet due to the early adoption of Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), as further discussed later in this Management's Discussion and Analysis.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Comparison of Year Ended December 31, 1997 to Year Ended December 31, 1996

At December 31, 1997, the Company owned 769 in-service properties containing approximately 56.4 million square feet of GLA, compared to 379 in-service properties with approximately 32.7 million square feet of GLA at December 31, 1996. During 1997, the Company acquired 389 properties containing approximately 22.8 million square feet of GLA, completed development of ten properties and expansions of two properties totaling 1.7 million square feet of GLA and sold ten in-service properties totaling .8 million square feet of GLA, one property held for redevelopment and several land parcels.

Rental income and tenant recoveries and other income increased in 1997 over 1996 by approximately \$70.4 million or 50.2% due primarily to the properties acquired after December 31, 1995. Revenues from properties owned prior to January 1, 1996 increased in 1997 over 1996 by approximately \$2.1 million or 2.0% due primarily to increased rental rates upon renewal or replacement of tenant leases.

Interest income-defeasance in 1997 represents interest income earned on U.S. Government securities and cash proceeds from such securities upon maturity that were pledged as collateral to legally defease the 1994 Defeased Mortgage Loan.

Property expenses, which include real estate taxes, repairs and maintenance, property management, utilities, insurance and other expenses, increased in 1997 over 1996 by approximately \$20.5 million or 52.4% due primarily to properties acquired after December 31, 1995. For properties owned prior to January 1, 1996, property expenses remained relatively unchanged.

General and administrative expense increased in 1997 over 1996 by approximately \$2.2 million due primarily to the additional expenses associated with managing the Company's growing operations including additional professional fees relating to additional properties owned and personnel to manage and expand the Company's business.

Interest expense increased by approximately \$20.9 million for the year ended December 31, 1997 compared to the year ended December 31, 1996 due primarily to a higher average debt balance to fund the purchase of U.S. Government securities to legally defease the 1994 Defeased Mortgage Loan and to fund the acquisition and development of additional properties.

Depreciation and other amortization increased in 1997 over 1996 by approximately \$11.5 million due primarily to the additional depreciation and amortization related to the properties acquired and placed in service after December 31, 1995.

The \$1.4 million gain on disposition of interest rate protection agreements for the year ended December 31, 1997 represents the sale of the Company's interest rate protection agreements in April 1997. These agreements were entered into in July 1995 and effectively fixed the annual interest rate on the 1994 Mortgage Loan at 6.97% for six years through June 30, 2001.

The \$5.0 million gain on sales of properties for the year ended December 31, 1997 resulted from the sale of ten in-service properties, one property under redevelopment and several parcels of land. Gross proceeds for these property sales totaled approximately \$33.7 million.

The \$4.3 million gain on sales of properties for the year ended December 31, 1996 resulted from the sale of three in-service properties. Gross proceeds for these property sales totaled approximately \$15.0 million.

The \$14.1 million extraordinary loss for the year ended December 31, 1997 represents the write-off of unamortized deferred financing costs, prepayment fees, legal fees and other costs incurred to terminate various mortgage loans, an unsecured loan and a revolving line of credit and the commitment to retire the 1994 Defeased Mortgage Loan.

The \$2.3 million extraordinary loss for the year ended December 31, 1996 represents the write-off of unamortized deferred financing costs, legal fees and other costs that were incurred to terminate various mortgage loans and various revolving lines of credit.

Liquidity and Capital Resources

At December 31, 1998, the Company's cash and cash equivalents was approximately \$21.8 million and restricted cash was approximately \$11.0 million. Included in restricted cash are approximately \$3.3 million of cash reserves required to be set aside under the Company's \$40.0 million mortgage loan (the "1995 Mortgage Loan") for payments of security deposit refunds, tenant improvements, capital expenditures, interest, real estate taxes, and insurance. The portion of the cash reserve relating to payments for capital expenditures, interest, real estate taxes, and insurance for properties collateralizing the 1995 Mortgage Loan is established monthly, distributed to the Company as such expenditures are made and is replenished to a level adequate to make the next periodic payment of such expenditures. The portion of the cash reserve relating to security deposit refunds for the tenants occupying the properties collateralizing the 1995 Mortgage Loan is adjusted as tenants turn over. Also included in restricted cash is approximately \$7.7 million of gross proceeds from the sale of properties. These sales proceeds will be disbursed as the Company exchanges into properties under Section 1031 of the Internal Revenue Code.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Year Ended December 31, 1998

Net cash provided by operating activities of approximately \$149.1 million for the year ended December 31, 1998 was comprised primarily of net income before minority interest of approximately \$83.7 million and adjustments for non-cash items of approximately \$59.0 million and the net change in operating assets and liabilities of approximately \$6.4 million. The adjustments for the non-cash items are primarily comprised of depreciation and amortization, a provision for bad debts and the cumulative effect of a change in accounting principle due to the adoption of SOP 98-5 (as further discussed later in this Management's Discussion and Analysis of Financial Condition and Results of Operations), offset by the gain on sales of real estate, equity in income of joint venture and the effect of the straight-lining of rental income.

Net cash used in investing activities of approximately \$535.6 million for the year ended December 31, 1998 was comprised primarily of the acquisition of real estate, development of real estate, capital expenditures related to the expansion and improvement of existing real estate, closing costs from the sales of real estate, investment in joint venture and an increase in restricted cash used to effect Section 1031 exchanges, offset by the proceeds from the sales of real estate and the repayment of mortgage loans receivable.

Net cash provided by financing activities of approximately \$395.1 million for the year ended December 31, 1998 was comprised primarily of the net proceeds from the issuance of common stock, preferred stock and senior unsecured debt, net borrowings under the Company's \$300.0 million unsecured revolving credit facility (the "1997 Unsecured Acquisition Facility") and a decrease in restricted cash which was used to pay down and retire the 1994 Defeased Mortgage Loan, offset by repayments of mortgage loans and common and preferred stock dividends and distributions.

Year Ended December 31, 1997

Net cash provided by operating activities of approximately \$102.6 million for the year ended December 31, 1997 was comprised primarily of net income before minority interest of approximately \$57.3 million and adjustments for non-cash items of approximately \$48.9 million, offset by the net change in operating assets and liabilities of approximately \$3.6 million. The adjustments for the non-cash items are primarily comprised of depreciation and amortization, extraordinary loss and a provision for bad debts, offset by the gain on disposition of interest rate protection agreements, the gain on sales of real estate and the effect of the straight-lining of rental income.

Net cash used in investing activities of approximately \$805.5 million for the year ended December 31, 1997 was comprised primarily of the acquisition of real estate, development of real estate, capital expenditures related to the expansion and improvement of existing real estate, closing costs from the sales of real estate and the funding of mortgage loans receivable, offset by the proceeds from the sales of real estate, a decrease in restricted cash due to the use of restricted cash to purchase properties to effect Section 1031 exchanges and repayment of mortgage loans receivable.

Net cash provided by financing activities of approximately \$708.4 million for the year ended December 31, 1997 was comprised primarily of the net proceeds from the issuance of common stock, preferred stock and senior unsecured debt, net borrowings under the Company's \$200.0 million unsecured revolving credit facility and proceeds from the sale of interest rate protection agreements, offset by repayments of unsecured debt, promissory notes payable and mortgage loans payable, the purchase of U.S. Government securities to defease the 1994 Defeased Mortgage Loan and common and preferred stock dividends and distributions.

Year Ended December 31, 1996

Net cash provided by operating activities of approximately \$62.6 million for the year ended December 31, 1996 was comprised primarily of net income before minority interest of approximately \$38.6 million and adjustments for non-cash items of approximately \$28.2 million, offset by the net change in operating assets and liabilities of approximately \$4.2 million. The adjustments for the non-cash items are primarily comprised of depreciation and amortization, extraordinary loss and a provision for bad debts, offset by the gain on sales of real estate and the effect of the straight-lining of rental income.

Net cash used in investing activities of approximately \$240.6 million for the year ended December 31, 1996 was comprised primarily of the acquisition of real estate, development of real estate, capital expenditures related to the expansion and improvement of existing real estate and closing costs from the sales of real estate, offset by the proceeds from the sales of real estate and a decrease in restricted cash due to a decrease in cash reserves related to the 1994 Defeased Mortgage Loan.

Net cash provided by financing activities of approximately \$176.7 million for the year ended December 31, 1996 was comprised primarily of the net proceeds from the issuance of common stock and the net proceeds from mortgage loans payable, offset by net repayments under the Company's \$200.0 million unsecured revolving credit facility, repayments of construction loans payable and mortgage loans payable and common and preferred stock dividends and distributions.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Funds From Operations and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

Funds from operations increased by approximately \$40.8 million or 44.2% in 1998 compared to 1997 and increased by approximately \$31.8 million or 52.6% in 1997 compared to 1996 as a result of the factors discussed in the analysis of operating results above. Management considers funds from operations to be one financial measure of the operating performance of an equity REIT that provides a relevant basis for comparison among REITs and it is presented to assist investors in analyzing the performance of the Company. In accordance with the National Association of Real Estate Investment Trusts' definition of funds from operations, the Company calculates funds from operations to be equal to net income, excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, excluding amortization of deferred financing costs and interest rate protection agreements, and after adjustments for unconsolidated partnerships and joint ventures. Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs, including the payment of dividends and distributions. Funds from operations should not be considered as a substitute for net income as a measure of results of operations or for cash flow from operating activities (calculated in accordance with generally accepted accounting principles) as a measure of liquidity. Funds from operations as calculated by the Company may not be comparable to similarly titled but differently calculated measures of other REITs.

The ratio of earnings to fixed charges and preferred stock dividends was 1.62 for the year ended December 31, 1998 compared to 1.79 for the year ended December 31, 1997 and 1.88 for the year ended December 31, 1996. The decrease in the earnings to fixed charges and preferred stock dividends between fiscal years 1998 and 1997 is primarily due to additional interest expense and preferred stock dividends incurred in fiscal year 1998 from additional debt and preferred stock issued to fund property acquisitions and developments, which is partially offset by higher net operating income from the property acquisitions as discussed in "Results of Operations" above. The decrease in the earnings to fixed charges and preferred stock dividends between fiscal year 1997 and 1996 is primarily due to additional interest expense and preferred stock dividends incurred in fiscal year 1997 from additional debt and preferred stock issued to fund property acquisitions and to legally defease the 1994 Defeased Mortgage Loan, which is partially offset by higher net operating income from the property acquisitions as discussed in "Results of Operations" above.

Market Risk

The following discussion about the Company's risk-management activities includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

This analysis presents the hypothetical gain or loss in earnings, cash flows or fair value of the financial instruments and derivative instruments which are held by the Company at December 31, 1998 that are sensitive to changes in the interest rates. While this analysis may have some use as a benchmark, it should not be viewed as a forecast.

In the normal course of business, the Company also faces risks that are either non-financial or non-quantifiable. Such risks principally include credit risk and legal risk and are not represented in the following analysis.

At December 31, 1998, \$134.8 million (approximately 11% of total debt at December 31, 1998) of the Company's debt was variable rate debt (all of the variable rate debt relates to the Company's 1997 Unsecured Acquisition Facility) and \$1,057.1 million (approximately 89% of total debt at December 31, 1998) was fixed rate debt. The Company also had outstanding a written put and a written call option (collectively, the "Written Options") which were issued in conjunction with the initial offering of two tranches of unsecured debt. The Company's past practice has been to lock into fixed interest rates at issuance or fix the rate of variable rate debt through the use of interest rate protection agreements when interest rate market conditions dictate it is advantageous to do so. Currently, the Company does not enter into financial instruments for trading or other speculative purposes.

For fixed rate debt, changes in interest rates generally affect the fair value of the debt, but not earnings or cash flows of the Company. Conversely, for variable rate debt, changes in the interest rate generally do not impact the fair value of the debt, but would affect the Company's future earnings and cash flows. The interest rate risk and changes in fair market value of fixed rate debt generally do not have a significant impact on the Company until the Company is required to refinance such debt. See Note 6 to the consolidated financial statements for a discussion of the maturity dates of the Company's various fixed rate debt.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Based upon the amount of variable rate debt outstanding at December 31, 1998, a 10% increase or decrease in the interest rate on the Company's variable rate debt would decrease or increase, respectively, future net income and cash flows by approximately \$.9 million per year. A 10% increase in interest rates would decrease the fair value of the fixed rate debt at December 31, 1998 by approximately \$47.9 million to \$988.7 million. A 10% decrease in interest rates would increase the fair value of the fixed rate debt at December 31, 1998 by approximately \$52.3 million to \$1,088.9 million. A 10% increase in interest rates would decrease the fair value of the Written Options at December 31, 1998 by approximately \$4.0 million to \$9.2 million. A 10% decrease in interest rates would increase the fair value of the Written Options at December 31, 1998 by approximately \$4.5 million to \$17.7 million.

Information relating to the Company's interest rate protection agreement that was settled on November 5, 1998 is disclosed below in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Investment in Real Estate, Development of Real Estate and Sales of Real Estate

In 1998, the Company acquired 247 industrial properties comprising approximately 12.3 million square feet of GLA and several land parcels for a total purchase price of approximately \$560.1 million, completed the development of 12 properties and expansions of two properties comprising approximately 2.6 million square feet of GLA at a cost of approximately \$85.9 million and sold 41 in-service properties comprising approximately 2.0 million square feet of GLA and several land parcels for gross proceeds of \$99.9 million (approximately \$56.3 million of the gross sales proceeds were received from the September 1998 Joint Venture to which the Company sold 21 of the 41 properties at the Company's net book value). The gain on sales of real estate was approximately \$5.3 million.

The Company has committed to the construction of 20 development projects totaling approximately 2.5 million square feet of GLA. The estimated total construction costs are approximately \$101.9 million. These developments are expected to be funded with cash flow from operations as well as borrowings under the Company's 1997 Unsecured Acquisition Facility.

During the period January 1, 1999 through March 12, 1999, the Company acquired or completed development of four industrial properties and one land parcel for a total estimated investment of approximately \$28.0 million. The Company also sold seven industrial properties for approximately \$12.5 million of gross proceeds.

Real Estate Held For Sale

The Company has an active sales program through which it is continually engaged in identifying and evaluating its current portfolio for potential sales candidates in order to redeploy capital. At December 31, 1998, the Company had three industrial properties located in New Jersey comprising approximately 148,874 square feet of GLA held for sale, one industrial property located in Michigan comprising approximately 32,470 square feet of GLA held for sale and one industrial property located in Colorado comprising approximately 26,922 square feet of GLA held for sale. Income from operations of the five industrial properties held for sale for the twelve months ended December 31, 1998, 1997 and 1996 is \$.8 million, \$.6 million and \$.1 million, respectively. Net carrying value of the five industrial properties held for sale at December 31, 1998 is \$9.7 million. There can be no assurance that such properties held for sale will be sold.

Investment in Joint Venture

On September 28, 1998, the Company, through a wholly-owned limited liability company in which the Operating Partnership is the sole member, entered into a joint venture arrangement (the "September 1998 Joint Venture") with an institutional investor to invest in industrial properties. The Company, through wholly-owned limited liability companies in which the Operating Partnership is the sole member, owns a 10% equity interest in the September 1998 Joint Venture and provides property and asset management services to the September 1998 Joint Venture. On or after October 2000, under certain circumstances, the Company has the option of purchasing all of the properties owned by the September 1998 Joint Venture at a price determined by the provisions of the co-ownership agreement between the Company and the September 1998 Joint Venture's other partner. The Company received approximately \$2.3 million (net of the inter-company elimination) in acquisition, asset management and property management fees in 1998 from the September 1998 Joint Venture. The Company accounts for the September 1998 Joint Venture under the equity method of accounting. As of December 31, 1998, the September 1998 Joint Venture owned 130 industrial properties comprising approximately 6.3 million square feet of GLA.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Mortgage Loans and Senior Unsecured Debt

On April 16, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$2.5 million (the "Acquisition Mortgage Loan IV"). The Acquisition Mortgage Loan IV is collateralized by one property in Baltimore, Maryland, bears interest at a fixed rate of 8.95% and provides for monthly principal and interest payments based on a 20-year amortization schedule. The Acquisition Mortgage Loan IV matures on October 1, 2006. The Acquisition Mortgage Loan IV may be prepaid only after October 2001 in exchange for the greater of a 1% prepayment fee or a yield maintenance premium.

On July 16, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$2.6 million (the "Acquisition Mortgage Loan V"). The Acquisition Mortgage Loan V is collateralized by one property in Tampa, Florida, bears interest at a fixed rate of 9.01% and provides for monthly principal and interest payments based on a 30-year amortization schedule. The Acquisition Mortgage Loan V matures on September 1, 2006. The Acquisition Mortgage Loan V may be prepaid only after August 2002 in exchange for the greater of a 1% prepayment fee or a yield maintenance premium.

On August 31, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$1.0 million (the "Acquisition Mortgage Loan VI"). The Acquisition Mortgage Loan VI is collateralized by one property in Portland, Oregon, bears interest at a fixed rate of 8.875% and provides for monthly principal and interest payments based on a 20-year amortization schedule. The Acquisition Mortgage Loan VI matures on November 1, 2006. The Acquisition Mortgage Loan VI may be prepaid only after September 2001 in exchange for a 3% prepayment fee.

On August 31, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$1.4 million (the "Acquisition Mortgage Loan VII"). The Acquisition Mortgage Loan VII is collateralized by one property in Milwaukie, Oregon, bears interest at a fixed rate of 9.75% and provides for monthly principal and interest payments based on a 25-year amortization schedule. The Acquisition Mortgage Loan VII matures on March 15, 2002. The Acquisition Mortgage Loan VII may be prepaid only after December 2001.

On November 5, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$1.3 million (the "Acquisition Mortgage Loan VIII"). The Acquisition Mortgage Loan VIII is collateralized by three properties in Richland Hills, Texas, bears interest at a fixed rate of 8.450% and provides for monthly principal and interest payments based on a 143-month amortization schedule. The Acquisition Mortgage Loan VIII matures on July 1, 2009.

On March 31, 1998, the Company, through the Operating Partnership, issued \$100.0 million of Dealer remarketable securities which mature on April 5, 2011 and bear a coupon interest rate of 6.50% (the "2011 Drs."). The issue price of the 2011 Drs. was 99.753%. Interest is paid semi-annually in arrears on April 5 and October 5. The 2011 Drs. are callable (the "Call Option"), at the option of J.P. Morgan Securities, Inc., as Remarketing Dealer (the "Remarketing Dealer"), on April 5, 2001 (the "Remarketing Date"). The Company received approximately \$2.8 million of proceeds from the Remarketing Dealer as consideration for the Call Option. The Company is amortizing these proceeds over the life of the Call Option as an adjustment to interest expense. If the holder of the Call Option calls the 2011 Drs. and elects to remarket the 2011 Drs., then after the Remarketing Date, the interest rate on the 2011 Drs. will be reset at a fixed rate until April 5, 2011 based upon a predetermined formula as disclosed in the related Prospectus Supplement. If the Remarketing Dealer elects not to remarket the 2011 Drs., then the Operating Partnership will be required to repurchase, on the Remarketing Date, any 2011 Drs. that have not been purchased by the Remarketing Dealer at 100% of the principal amount thereof, plus accrued and unpaid interest, if any. The Company also settled an interest rate protection agreement, in the notional amount of \$100.0 million, which was used to fix the interest rate on the 2011 Drs. prior to issuance. The debt issue discount and the settlement amount of the interest rate protection agreement are being amortized over the life of the 2011 Drs. as an adjustment to interest expense. The 2011 Drs. contain certain covenants including limitations on incurrence of debt and debt service coverage.

On July 14, 1998, the Company, through the Operating Partnership, issued \$200.0 million of senior unsecured debt which matures on July 15, 2028 and bears a coupon interest rate of 7.60% (the "2028 Notes"). The issue price of the 2028 Notes was 99.882%. Interest is paid semi-annually in arrears on January 15 and July 15. The Company also settled interest rate protection agreements, in the notional amount of \$150.0 million, which were used to fix the interest rate on the 2028 Notes prior to issuance. The debt issue discount and the settlement amount of the interest rate protection agreements are being amortized over the life of the 2028 Notes as an adjustment to interest expense. The 2028 Notes contain certain covenants including limitation on incurrence of debt and debt service coverage. Approximately \$50.0 million of the 2028 Notes was purchased, through a broker/dealer, by an entity in which a Director of the Company owns greater than a ten percent interest.

Management's Discussion and Analysis of Financial Condition and Results of Operations

On November 5, 1998 the Company, through the Operating Partnership, settled its remaining interest rate protection agreement which was scheduled to expire on January 4, 1999. This agreement was entered into in December 1997 in anticipation of 1998 senior unsecured debt offerings. Due to the changing market conditions and the Company's expectation that it would not issue debt securities associated with the interest rate protection agreement, the Company settled its position. As a result, the Company recognized an expense of approximately \$8.5 million associated with the settlement of this interest rate protection agreement in the fourth quarter of 1998.

Issuance of Preferred Stock, Common Stock and Employee Stock Options

On February 4, 1998, the Company issued 5,000,000 Depositary Shares, each representing 1/100th of a share of the Company's 7.95%, \$.01 par value, Series D Cumulative Preferred Stock (the "Series D Preferred Stock"), at an initial offering price of \$25 per Depositary Share. Dividends on the Series D Preferred Stock represented by the Depositary Shares are cumulative from the date of initial issuance and are payable quarterly in arrears. With respect to the dividends and amounts upon liquidation, dissolution or winding up, the Series D Preferred Stock ranks senior to payments on the Company's \$.01 par value common stock ("Common Stock") and pari passu with the Company's 9½%, \$.01 par value, Series A Cumulative Preferred Stock (the "Series A Preferred Stock"), 8¼%, \$.01 par value, Series B Cumulative Preferred Stock (the "Series B Preferred Stock"), 8%, \$.01 par value, Series C Cumulative Preferred Stock (the "Series C Preferred Stock") and Series E Preferred Stock (defined below); however, the Series A Preferred Stock has the benefit of a guarantee by First Industrial Securities, L.P. The Series D Preferred Stock is not redeemable prior to February 4, 2003. On and after February 4, 2003, the Series D Preferred Stock is redeemable for cash at the option of the Company, in whole or part, at a redemption price equivalent to \$25 per Depositary Share, or \$125.0 million in the aggregate, plus dividends accrued and unpaid to the redemption date. The Series D Preferred Stock has no stated maturity and is not convertible into any other securities of the Company.

On March 18, 1998, the Company issued 3,000,000 Depositary Shares, each representing 1/100th of a share of the Company's 7.90%, \$.01 par value, Series E Cumulative Preferred Stock (the "Series E Preferred Stock"), at an initial offering price of \$25 per Depositary Share. Dividends on the Series E Preferred Stock represented by the Depositary Shares are cumulative from the date of initial issuance and are payable quarterly in arrears. With respect to the payment of dividends and amounts upon liquidation, dissolution or winding up, the Series E Preferred Stock ranks senior to payments on the Company's Common Stock and pari passu with the Company's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock; however, the Series A Preferred Stock has the benefit of a guarantee by First Industrial Securities, L.P. The Series E Preferred Stock is not redeemable prior to March 18, 2003. On and after March 18, 2003, the Series E Preferred Stock is redeemable for cash at the option of the Company, in whole or in part, at a redemption price equivalent to \$25 per Depositary Share, or \$75.0 million in the aggregate, plus dividends accrued and unpaid to the redemption date. The Series E Preferred Stock has no stated maturity and is not convertible into any other securities of the Company.

On April 23, 1998, the Company issued, in a private placement, 1,112,644 shares of \$.01 par value Common Stock (the "April 1998 Equity Offering"). The price per share in the April 1998 Equity Offering was \$32.625, resulting in gross offering proceeds of \$36.3 million. Proceeds to the Company, net of purchaser's discount and total offering expenses, were approximately \$33.1 million.

During 1998, the Company awarded 51,850 shares of restricted Common Stock to certain employees and 2,769 shares of restricted Common Stock to certain Directors. Other employees of the Company converted certain employee stock options to 13,602 shares of restricted Common Stock. These shares of restricted Common Stock had a fair value of \$2.3 million on the date of grant. The restricted Common Stock vests over a period from five to ten years. Compensation expense will be charged to earnings over the respective vesting period.

On January 2, 1998, the Company granted 4,370,000 non-qualified employee stock options. These stock options vest over three years based upon certain performance measures. The stock options have a strike price of \$35.8125 per share and expire ten years from the date of grant.

On May 14, 1998, the Company granted 899,000 non-qualified employee stock options. These stock-options vest over one year and have a strike price of \$31.13 per share. These stock options expire between seven and ten years from the date of grant.

Management's Discussion and Analysis of Financial Condition and Results of Operations

On November 11, 1998, the Company granted 13,700 non-qualified employee stock options. These stock-options vest immediately and have a strike price of \$30.00 per share. These stock options expire three years from the date of grant.

On December 3, 1998, the Company granted 40,000 non-qualified employee stock options to two senior executive officers of the Company. These stock-options vest immediately and have a strike price of \$24.00 per share. These stock options expire ten years from the date of grant.

Dividends/Distributions

On January 20, 1998, the Company and the Operating Partnership paid a fourth quarter 1997 distribution of \$.53 per common share/Unit, totaling approximately \$22.0 million. On April 20, 1998, the Company and Operating Partnership paid a first quarter 1998 distribution of \$.53 per common share/Unit, totaling approximately \$22.5 million. On July 20, 1998, the Company and the Operating Partnership paid a second quarter 1998 distribution of \$.53 per common share/Unit, totaling approximately \$23.6 million. On October 19, 1998, the Company and the Operating Partnership paid a third quarter 1998 distribution of \$.53 per common share/Unit, totaling approximately \$23.7 million. On January 19, 1999, the Company and the Operating Partnership paid a fourth quarter 1998 distribution of \$.60 per common share/Unit, totaling approximately \$27.1 million.

On March 31, 1998, the Company paid first quarter preferred stock dividends of \$.59375 per share on its Series A Preferred Stock, \$54.688 per share (equivalent to \$.54688 per Depositary Share) on its Series B Preferred Stock, \$53.906 per share (equivalent to \$.53906 per Depositary Share) on its Series C Preferred Stock and a period prorated first quarter preferred stock dividend of \$30.365 per share (equivalent to \$.30365 per Depositary Share) on its Series D Preferred Stock. The preferred stock dividends paid on March 31, 1998 totaled, in the aggregate, approximately \$5.8 million. On March 31, 1998, the Company accrued a first quarter period prorated preferred stock dividend of \$7.13194 per share (equivalent to \$.0713194 per Depositary Share), totaling \$.2 million, on its Series E Preferred Stock.

On June 30, 1998, the Company paid second quarter preferred stock dividends of \$.59375 per share on its Series A Preferred Stock, \$54.688 per share (equivalent to \$.54688 per Depositary Share) on its Series B Preferred Stock, \$53.906 per share (equivalent to \$.53906 per Depositary Share) on its Series C Preferred Stock and \$49.687 per share (equivalent to \$.49687 per Depositary Share) on its Series D Preferred Stock and a period prorated first quarter dividend and a second quarter dividend totaling \$56.5069 per share (equivalent to \$.565069 per Depositary Share) on its Series E Preferred Stock. The preferred stock dividends paid on June 30, 1998 totaled, in the aggregate, approximately \$8.4 million.

On September 30, 1998, the Company paid third quarter preferred stock dividends of \$.59375 per share on its Series A Preferred Stock, \$54.688 per share (equivalent to \$.54688 per Depositary Share) on its Series B Preferred Stock, \$53.906 per share (equivalent to \$.53906 per Depositary Share) on its Series C Preferred Stock and \$49.687 per share (equivalent to \$.49687 per Depositary Share) on its Series D Preferred Stock and \$49.375 per share (equivalent to \$.49375 per Depositary Share) on its Series E Preferred Stock. The preferred stock dividends paid on September 30, 1998 totaled, in the aggregate, approximately \$8.2 million.

On December 31, 1998, the Company paid fourth quarter preferred stock dividends of \$.59375 per share on its Series A Preferred Stock, \$54.688 per share (equivalent to \$.54688 per Depositary Share) on its Series B Preferred Stock, \$53.906 per share (equivalent to \$.53906 per Depositary Share) on its Series C Preferred Stock and \$49.687 per share (equivalent to \$.49687 per Depositary Share) on its Series D Preferred Stock and \$49.375 per share (equivalent to \$.49375 per Depositary Share) on its Series E Preferred Stock. The preferred stock dividends paid on December 31, 1998 totaled, in the aggregate, approximately \$8.2 million.

In March 1999, the Company declared a first quarter dividend of \$.60 per share/Unit on its common stock which is payable on April 19, 1999. The Company also declared a first quarter dividend of \$.59375 per share, \$54.688 per share (\$.54688 per depositary share), \$53.906 per share (\$.53906 per depositary share), \$49.687 per share (\$.49687 per depositary share) and \$49.375 per share (\$.49375 per depositary share) on its Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, respectively, which is payable on March 31, 1999.

Short-Term and Long-Term Liquidity Needs

The Company has considered its short-term (one year or less) liquidity needs and the adequacy of its estimated cash flow from operations and other expected liquidity sources to meet these needs. The Company believes that its principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements and the minimum distribution required to maintain the Company's REIT qualification under the Internal Revenue Code. The Company anticipates that these needs will be met with cash flows provided by operating activities.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company expects to meet long-term (greater than one year) liquidity requirements such as property acquisitions, developments, scheduled debt maturities, major renovations, expansions and other nonrecurring capital improvements through long-term secured and unsecured indebtedness and the issuance of additional equity securities. The Company is also actively considering joint ventures with institutional partners and the disposition of select assets as additional financing strategies. As of December 31, 1998 and March 12, 1999, \$589.2 million of common stock, preferred stock and depository shares and \$100.0 million of debt securities were registered and unissued under the Securities Act of 1933, as amended. The Company may finance the development or acquisition of additional properties through borrowings under the 1997 Unsecured Acquisition Facility. At December 31, 1998, borrowings under the 1997 Unsecured Acquisition Facility bore interest at a weighted average interest rate of 6.5%. As of March 12, 1999, the Company had approximately \$156.7 million available in additional borrowings under the 1997 Unsecured Acquisition Facility.

Related Party Transactions

The Company often obtains title insurance coverage for its properties from an entity for which an independent Director of the Company became the President, Chief Executive Officer and a Director in 1996.

From time to time, the Company utilizes real estate brokerage services from CB Richard Ellis for which a relative of one of the Company's officers/Directors is an employee.

On November 19, 1997, the Company exercised an option that was granted on March 19, 1996 to purchase a 100,000 square foot bulk warehouse property located in Indianapolis, Indiana for approximately \$3.3 million. The property was purchased from a partnership in which one of the Company's officers owned a 33.0% interest.

From time to time, the Company utilizes leasing services from an entity for which one of the Company's former officers located in a regional office owns a 62.5% ownership interest. For the year ended December 31, 1998, the Company has paid approximately \$.2 million of leasing commissions to this entity.

On July 16, 1998, the Company, through the Operating Partnership, completed an acquisition of a real estate firm of which a former officer and an employee of the Company owned a 77.5% interest. Gross proceeds to the real estate firm totaled approximately \$2.3 million. In conjunction with the acquisition of the real estate firm, the Company also acquired an industrial property from this same entity for a purchase price of approximately \$3.2 million, excluding costs incurred in connection with the acquisition of the property.

On June 23, 1998, the Company, through the Operating Partnership, purchased a 292,471 square foot light industrial property located in Denver, Colorado for approximately \$12.2 million. The property was purchased from a company in which one of the Company's officers owned a 12.08% interest.

Of the 247 industrial properties purchased by the Company during the year ended December 31, 1998, four industrial properties were purchased from Western Suburban Industrial Investments Limited Partnership ("Western") in which the sole general partner, having a 5% interest, was Tomasz/Shidler Investment Corporation, the sole shareholders of which were a Director of the Company and a former Director/officer of the Company who also had a 53% and 32% limited partnership interest in Western, respectively. Further, an additional Director/officer of the Company was a limited partner in Western having an interest of 2%. The aggregate purchase price for this acquisition totaled approximately \$7.9 million, excluding costs incurred in conjunction with the acquisition of the properties.

In the fourth quarter of 1998, the Company sold three industrial properties to a former officer and Director of the Company for gross proceeds of approximately \$10.7 million. The former officer and Director has the option of selling the properties back to the Company and the Company has the option of buying the properties from the former officer and Director. The gain on sale from the sale of these properties has been deferred and will be recognized if the above mentioned options are not exercised.

Environmental

The Company incurred environmental costs of \$.3 million and \$.3 million in 1998 and 1997, respectively. The Company estimates 1999 costs of approximately \$.2 million. The Company estimates that the aggregate cost which needs to be expended in 1999 and beyond with regard to currently identified environmental issues will not exceed approximately \$2.3 million, a substantial amount of which will be the primary responsibility of the tenant, the seller to the Company or another responsible party. This estimate was determined by a third party evaluation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Inflation

For the last several years, inflation has not had a significant impact on the Company because of the relatively low inflation rates in the Company's markets of operation. Most of the Company's leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company's exposure to increases in costs and operating expenses resulting from inflation. In addition, many of the outstanding leases expire within five years which may enable the Company to replace existing leases with new leases at higher base rentals if rents of existing leases are below the then-existing market rate.

Year 2000 Compliance

The Year 2000 compliance issue concerns the inability of computerized information systems and non-information systems to accurately calculate, store or use a date after 1999. This could result in computer systems failures or miscalculations causing disruptions of operations. The Year 2000 issue affects almost all companies and organizations.

The Company has discussed its software applications and internal operational programs with its current information systems' vendor and, based on such discussions, believes that such applications and programs will properly recognize calendar dates beginning in the year 2000. The Company is discussing with its material third-party service providers, such as its banks, payroll processor and telecommunications provider, their Year 2000 compliance and is assessing what effect their possible non-compliance might have on the Company. In addition, the Company is discussing with its material vendors the possibility of any interface difficulties and/or electrical or mechanical problems relating to the year 2000 which may affect properties owned by the Company. The Company has also surveyed substantially all of its tenants to determine the status of their Year 2000 compliance and what effect their possible non-compliance might have on the Company. The Company is currently processing the information obtained from such tenant surveys and remains in discussions with its material vendors and third-party service providers. Of the tenant surveys processed to date, all have stated that they are either Year 2000 compliant or will be Year 2000 compliant by the end of 1999. The Company plans to complete its assessment of Year 2000 compliance by such parties by June 30, 1999. Until such time the Company cannot estimate any potential adverse impact resulting from the failure of tenants, vendors or third-party service providers to address their Year 2000 issues; however, to date, no significant Year 2000-related conditions have been identified.

Because the Company's evaluation of its Year 2000 issues has been conducted by its own personnel or by its vendors in connection with their servicing operations, the Company's expenditures for assessing its Year 2000 issues, though difficult to quantify, to date have not been material. In addition, the Company is not aware of any Year 2000-related conditions that it believes would likely require any material expenditures by the Company in the future.

Based on its current information, the Company believes that the risk posed by any foreseeable Year 2000-related problem with its internal systems and the systems at its properties (including both information and non-information systems) or with its vendors or tenants is minimal. Year 2000-related problems with the Company's software applications and internal operational programs or with the electrical or mechanical systems at its properties are unlikely to cause more than minor disruptions in the Company's operations. The Company believes that the risk posed by Year 2000-related problems at certain of its third-party service providers, such as its banks, payroll processor and telecommunications provider is marginally greater, though, based on its current information, the Company does not believe any such problems would have a material effect on its operations. Any Year 2000-related problems at such third-party service providers could delay the processing of financial transactions and the Company's payroll and could disrupt the Company's internal and external communications. At this time, the Company has not developed and does not anticipate developing any contingency plans with respect to Year 2000 issues. In addition, the Company has no plans to seek independent verification or review of its assessment of its Year 2000 issues. The Company does intend to complete its assessment of, and to continue to monitor, its Year 2000 issues and will develop contingency plans if, and to the extent, deemed necessary.

While the Company believes that it will be Year 2000 compliant by December 31, 1999, there can be no assurance that the Company has been or will be successful in identifying and assessing Year 2000 issues, or that, to the extent identified, the Company's efforts to remediate such issues will be effective such that Year 2000 issues will not have a material adverse effect on the Company's business, financial condition or results of operation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Other

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement, effective for fiscal years beginning after December 15, 1997, requires the Company to report components of comprehensive income in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is defined by Concepts Statement No. 6, "Elements of Financial Statements" as the change in the equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's net income available to common stockholders approximates its comprehensive income as defined in Concepts Statement No. 6, "Elements of Financial Statements."

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement, effective for financial statements for fiscal years beginning after December 15, 1997, requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. The sole business of the Company is the owning and the operation of industrial properties. The Company evaluates operating results and allocates resources on a property-by-property basis. Accordingly, the Company has concluded it has a single reportable segment for FAS 131 purposes. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. Therefore, no additional disclosure due to the adoption of FAS 131 is currently required.

In March 1998, the FASB's Emerging Issues Task Force (the "Task Force") issued Emerging Issues Task Force Issue No. 97-11, "Accounting for Internal Costs Relating to Real Estate Property Acquisitions" ("EITF 97-11"). EITF 97-11, effective March 19, 1998, requires that internal costs of preacquisition activities incurred in connection with the acquisition of an operating property be expensed as incurred. The Task Force concluded that a property is considered operating if, at the date of acquisition, major construction activity is substantially completed on the property and (a) it is held available for occupancy upon completion of tenant improvements by the acquirer or (b) it is already income

producing. The Company adopted EITF 97-11 as of March 19, 1998. Prior to March 19, 1998, the Company capitalized internal costs of preacquisition activities incurred in connection with the acquisition of operating properties. The adoption of EITF 97-11 resulted in a cumulative increase of approximately \$2.7 million in the amount of general and administrative expense reflected in the Company's consolidated statement of operations in 1998.

In April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 requires that the net unamortized balance of all start-up costs and organizational costs be written off as a cumulative effect of a change in accounting principle and all future start-up costs and organizational costs be expensed. In the second quarter of 1998, the Company reported a cumulative effect of a change in accounting principle in the amount of approximately \$2.0 million to reflect the write-off of the unamortized balance of organizational costs on the Company's balance sheet.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, effective for fiscal years beginning after June 15, 1999, establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments imbedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that the changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The Company is currently assessing the impact of this new statement on its consolidated financial position, liquidity, and results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Response to this item is included in the "Market Risk" section above.

To the Board of Directors and Stockholders of First Industrial Realty Trust, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in stockholders equity and of cash flows present fairly, in all material respects, the financial position of First Industrial Realty Trust, Inc. (the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Chicago, Illinois
February 16, 1999

Consolidated Balance Sheets

[Dollars in thousands, except per share data]

	December 31, 1998	December 31, 1997
Assets		
Investment in Real Estate:		
Land	\$ 406,465	\$ 299,020
Buildings and Improvements	2,137,499	1,663,731
Furniture, Fixtures and Equipment	1,437	1,437
Construction in Progress	37,632	30,158
Less: Accumulated Depreciation	[175,886]	[121,030]
Net Investment in Real Estate	2,407,147	1,873,316
Cash and Cash Equivalents	21,823	13,222
Restricted Cash	10,965	313,060
Tenant Accounts Receivable, Net	9,982	6,280
Investment in Joint Venture	4,458	o
Deferred Rent Receivable	14,519	10,144
Deferred Financing Costs, Net	12,206	8,594
Prepaid Expenses and Other Assets, Net	73,362	47,547
Total Assets	\$ 2,554,462	\$ 2,272,163
Liabilities and Stockholders' Equity		
Liabilities:		
Mortgage Loans Payable	\$ 108,487	\$ 101,198
Defeased Mortgage Loan Payable	o	300,000
Senior Unsecured Debt, Net	948,595	648,994
Acquisition Facility Payable	134,800	129,400
Accounts Payable and Accrued Expenses	72,963	50,373
Rents Received in Advance and Security Deposits	18,592	14,104
Dividends/Distributions Payable	27,081	22,010
Total Liabilities	1,310,518	1,266,079
Minority Interest	189,168	151,494
Commitments and Contingencies	o	o
Stockholders' Equity:		
Preferred Stock (\$.01 par value, 10,000,000 shares authorized, 1,650,000, 40,000, 20,000, 50,000 and 30,000 shares of Series A, B, C, D and E Cumulative Preferred Stock, respectively, issued and outstanding at December 31, 1998 having a liquidation preference of \$25 per share (\$41,250), \$2,500 per share (\$100,000), \$2,500 per share (\$50,000), \$2,500 per share (\$125,000) and \$2,500 per share (\$75,000), respectively; and 1,650,000, 40,000 and 20,000 shares of Series A, B, and C Cumulative Preferred Stock, respectively, issued and outstanding at December 31, 1997 having a liquidation preference of \$25 per share (\$41,250), \$2,500 per share (\$100,000) and \$2,500 per share (\$50,000), respectively)		
	18	17
Common Stock (\$.01 par value, 100,000,000 shares authorized, 37,932,015 and 36,433,859 shares issued and outstanding at December 31, 1998 and 1997, respectively)	379	364
Additional Paid-in-Capital	1,171,896	934,622
Distributions in Excess of Accumulated Earnings	[114,205]	[76,996]
Unearned Value of Restricted Stock Grants	[3,312]	[3,417]
Total Stockholders' Equity	1,054,776	854,590
Total Liabilities and Stockholders' Equity	\$ 2,554,462	\$ 2,272,163

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

Consolidated Statements of Operations

[Dollars in thousands, except per share data]

	Year Ended 12/31/98	Year Ended 12/31/97	Year Ended 12/31/96
Revenues			
Rental Income	\$ 281,660	\$ 164,389	\$ 109,113
Tenant Recoveries and Other Income	68,042	46,028	30,942
Interest Income – Defeasance	o	12,786	o
Total Revenues	349,702	223,203	140,055
Expenses			
Real Estate Taxes	55,544	34,653	23,371
Repairs and Maintenance	15,303	8,278	5,408
Property Management	13,643	7,850	5,067
Utilities	9,475	5,801	3,582
Insurance	934	568	877
Other	4,585	2,612	919
General and Administrative	12,983	6,248	4,018
Interest Expense	71,833	49,859	28,954
Amortization of Interest Rate Protection Agreements and Deferred Financing Costs	917	2,812	3,286
Depreciation and Other Amortization	63,805	39,573	28,049
Restructuring and Abandoned Pursuit Costs Charge	11,941	o	o
Total Expenses	260,963	158,254	103,531
Income from Operations Before Equity in Income of Joint Venture, Income Allocated to Minority Interest and Disposition of Interest Rate Protection Agreements	88,739	64,949	36,524
Equity in Income of Joint Venture	45	o	o
Income Allocated to Minority Interest	[7,961]	[5,312]	[2,931]
Disposition of Interest Rate Protection Agreements	[8,475]	1,430	o
Income from Operations	72,348	61,067	33,593
Gain on Sales of Properties	5,349	5,003	4,344
Income Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	77,697	66,070	37,937
Extraordinary Loss	o	[14,124]	[2,273]
Cumulative Effect of Change in Accounting Principle	[1,976]	o	o
Net Income	75,721	51,946	35,664
Preferred Stock Dividends	[30,610]	[11,856]	[3,919]
Net Income Available to Common Stockholders	\$ 45,111	\$ 40,090	\$ 31,745
Net Income Available to Common Stockholders Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle Per Weighted Average Common Share Outstanding:			
Basic	\$ 1.26	\$ 1.72	\$ 1.37
Diluted	\$ 1.25	\$ 1.70	\$ 1.37
Net Income Available to Common Stockholders Per Weighted Average Common Share Outstanding:			
Basic	\$ 1.20	\$ 1.27	\$ 1.28
Diluted	\$ 1.20	\$ 1.26	\$ 1.28

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

Consolidated Statements of Changes in Stockholders' Equity

[Dollars in thousands, except per share data]

	Total	Preferred Stock	Common Stock	Additional Paid-In- Capital	Retained Earnings	Distributions In Excess of Accumulated Earnings	Unearned Value of Restricted Stock Grants
Balance at December 31, 1995	\$ 306,023	\$ 17	\$ 190	\$ 338,907	\$ 0	\$ [33,091]	\$ 0
Net Proceeds from Issuance of Common Stock	244,040	0	109	243,931	0	0	0
Exercise of Stock Options	228	0	0	228	0	0	0
Preferred Stock Dividends							
(\$2.375 per Series A Share)	[3,919]	0	0	0	[3,919]	0	0
Distributions (\$1.9675 per Share/Unit)	[54,318]	0	0	0	[34,676]	[19,642]	0
Net Income Before Minority Interest	38,595	0	0	0	38,595	0	0
Minority Interest:							
Allocation of Income	[2,931]	0	0	0	0	[2,931]	0
Distributions (\$1.9675 per Unit)	3,900	0	0	0	0	3,900	0
Conversion of Units to Common Stock	943	0	0	943	0	0	0
Balance at December 31, 1996	532,561	17	299	584,009	0	[51,764]	0
Net Proceeds from Issuance of Preferred Stock	144,289	0	0	144,289	0	0	0
Net Proceeds from Issuance of Common Stock	195,456	0	60	195,396	0	0	0
Exercise of Stock Options	3,883	0	2	3,881	0	0	0
Issuance of Restricted Stock	0	0	1	3,654	0	0	[3,655]
Amortization of Restricted Stock Grants	238	0	0	0	0	0	238
Preferred Stock Dividends (\$2.375 per Series A Share, \$137.326 per Series B Share and \$122.029 per Series C Share)	[11,856]	0	0	0	[11,856]	0	0
Distributions (\$2.045 per Share/Unit)	[73,836]	0	0	0	[45,402]	[28,434]	0
Net Income Before Minority Interest	57,258	0	0	0	57,258	0	0
Minority Interest:							
Allocation of Income	[5,312]	0	0	0	0	[5,312]	0
Distributions (\$2.045 per Unit)	8,514	0	0	0	0	8,514	0
Conversion of Units to Common Stock	3,395	0	2	3,393	0	0	0
Balance at December 31, 1997	854,590	17	364	934,622	0	[76,996]	[3,417]
Net Proceeds from Issuance of Preferred Stock	192,700	1	0	192,699	0	0	0
Net Proceeds from Issuance of Common Stock	34,552	0	11	34,541	0	0	0
Exercise of Stock Options	2,543	0	1	2,542	0	0	0
Issuance of Restricted Stock	0	0	1	2,344	0	0	[2,345]
Amortization of Restricted Stock Grants	2,450	0	0	0	0	0	2,450
Preferred Stock Dividends							
(\$2.375 per Series A Share, \$218.750 per Series B Share, \$215.624 per Series C Share, \$179.426 per Series D Share and \$155.257 per Series E Share)	[30,610]	0	0	0	[30,610]	0	0
Distributions (\$2.19 per Share/Unit)	[96,868]	0	0	0	[53,071]	[43,796]	0
Net Income Before Minority Interest	83,682	0	0	0	83,681	0	0
Minority Interest:							
Allocation of Income	[7,961]	0	0	0	0	[7,961]	0
Distributions (\$2.19 per Unit)	14,548	0	0	0	0	14,548	0
Conversion of Units to Common Stock	5,150	0	2	5,148	0	0	0
Balance at December 31, 1998	\$1,054,776	\$ 18	\$ 379	\$1,171,896	\$ 0	\$ [114,205]	\$ [3,312]

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

Consolidated Statements of Cash Flows

[Dollars in thousands]

	Year Ended 12/31/98	Year Ended 12/31/97	Year Ended 12/31/96
Cash Flows from Operating Activities			
Net Income	\$ 75,721	\$ 51,946	\$ 35,664
Income Allocated to Minority Interest	7,961	5,312	2,931
Income Before Minority Interest	83,682	57,258	38,595
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	57,565	35,286	24,542
Amortization of Interest Rate Protection Agreement and Deferred Financing Costs	917	2,812	3,286
Other Amortization	8,074	4,353	3,507
Provision for Bad Debts	550	850	100
Equity in Income of Joint Venture	[45]	o	o
Gain on Sales of Properties	[5,349]	[5,003]	[4,344]
Gain from Disposition of Interest Rate Protection Agreements	o	[1,430]	o
Extraordinary Loss	o	14,124	2,273
Cumulative Effect of Change in Accounting Principle	1,976	o	o
Increase in Tenant Accounts Receivable, Prepaid Expenses and Other Assets	[26,595]	[23,034]	[4,448]
Increase in Deferred Rent Receivable	[4,657]	[2,075]	[1,189]
Increase in Accounts Payable and Accrued Expenses and Rents Received in Advance and Security Deposits	29,867	17,644	2,085
Increase in Organization Costs	[396]	[185]	[68]
Decrease (Increase) in Restricted Cash	3,507	2,035	[1,718]
Net Cash Provided by Operating Activities	149,096	102,635	62,621
Cash Flows from Investing Activities			
Purchase of and Additions to Investment in Real Estate	[625,027]	[827,871]	[257,156]
Proceeds from Sale of Investment in Real Estate	99,904	33,658	14,972
Investment in Joint Venture	[4,413]	o	o
Funding of Mortgage Loans Receivable	o	[18,785]	o
Repayment of Mortgage Loans Receivable	1,394	4,751	o
(Increase) Decrease in Restricted Cash	[7,412]	2,742	1,613
Net Cash Used in Investing Activities	[535,554]	[805,505]	[240,571]
Cash Flows from Financing Activities			
Proceeds from Sale of Common Stock	36,300	200,360	260,703
Common Stock Underwriting Discounts/Offering Costs	[3,159]	[5,221]	[15,190]
Proceeds from Exercise of Employee Stock Options	2,544	3,883	o
Proceeds from Sale of Preferred Stock	200,000	150,000	o
Preferred Stock Underwriting Discounts/Offering Costs	[7,300]	[5,710]	[408]
Proceeds from Sale of Interest Rate Protection Agreements	o	9,950	o
Purchase of Interest Rate Protection Agreements	o	[150]	o
Purchase of U.S. Government Securities	o	[300,000]	o
Proceeds from Maturity of U.S. Government Securities	o	300,000	o
Decrease (Increase) in Restricted Cash-Defeasance	306,000	[306,000]	o
Proceeds from Senior Unsecured Debt	299,517	983,757	o
Repayment of Senior Unsecured Debt	o	[334,800]	o
Other Proceeds from Senior Unsecured Debt	2,760	2,377	o
Other Costs of Senior Unsecured Debt	[11,890]	[2,294]	o
Dividends/Distributions	[91,796]	[68,107]	[47,991]
Preferred Stock Dividends	[30,610]	[11,856]	[4,387]
Proceeds from Mortgage Loans Payable	o	o	36,750
Repayments on Mortgage Loans Payable	[301,947]	[11,156]	[935]
Proceeds from Acquisition Facilities Payable	531,000	540,100	103,523
Repayments on Acquisition Facilities Payable	[525,600]	[415,100]	[147,357]
Repayment of Construction Loans Payable	o	o	[4,873]
Repayment of Promissory Notes Payable	o	[9,919]	o
Cost of Debt Issuance and Retirement of Debt	[10,760]	[11,668]	[3,158]
Net Cash Provided by Financing Activities	395,059	708,446	176,677
Net Increase (Decrease) in Cash and Cash Equivalents	8,601	5,576	[1,273]
Cash and Cash Equivalents, Beginning of Period	13,222	7,646	8,919
Cash and Cash Equivalents, End of Period	\$ 21,823	\$ 13,222	\$ 7,646

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

1. Organization and Formation of Company

First Industrial Realty Trust, Inc. was organized in the state of Maryland on August 10, 1993. First Industrial Realty Trust, Inc. is a real estate investment trust ("REIT") as defined in the Internal Revenue Code.

First Industrial Realty Trust, Inc. and its subsidiaries (the "Company") began operations on July 1, 1994. The Company's operations are conducted primarily through First Industrial, L.P. (the "Operating Partnership") of which the Company is the sole general partner. The Company is the sole stockholder of First Industrial Finance Corporation, First Industrial Pennsylvania Corporation, First Industrial Harrisburg Corporation, First Industrial Securities Corporation, First Industrial Mortgage Corporation, First Industrial Indianapolis Corporation, FI Development Services Corporation and First Industrial Florida Finance Corporation, which are the sole general partners of First Industrial Financing Partnership, L.P. (the "Financing Partnership"), First Industrial Pennsylvania, L.P. (the "Pennsylvania Partnership"), First Industrial Harrisburg, L.P. (the "Harrisburg Partnership"), First Industrial Securities, L.P. (the "Securities Partnership"), First Industrial Mortgage Partnership, L.P. (the "Mortgage Partnership"), First Industrial Indianapolis, L.P. (the "Indianapolis Partnership"), First Industrial Development Services, L.P. and TK-SV, LTD., respectively. The Operating Partnership is the sole limited partner of the Financing Partnership, the Pennsylvania Partnership, the Harrisburg Partnership, the Securities Partnership, the Mortgage Partnership, the Indianapolis Partnership, First Industrial Development Services, L.P. and TK-SV, LTD. The Operating Partnership is also the sole member of limited liability companies (the "L.L.C.s"), and the majority stockholder of First Industrial Enterprises of Michigan and FR Development Services, Inc. The Company, through wholly-owned limited liability companies of which the Operating Partnership is the sole member, also owns a 10% equity interest in, and provides asset and property management services to, a joint venture which invests in industrial properties.

As of December 31, 1998, the Company owned 987 in-service properties located in 25 states, containing an aggregate of approximately 69.3 million square feet (unaudited) of gross leasable area ("GLA"). Of the 987 properties owned by the Company, 840 are held by the Operating Partnership, 23 are held by the Financing Partnership, 19 are held by the Securities Partnership, 23 are held by the Mortgage Partnership, 23 are held by the Pennsylvania Partnership, six are held by the Harrisburg Partnership, six are held by the Indianapolis Partnership, one is held by TK-SV, LTD., 45 are held by limited liability companies of which the Operating Partnership is the sole member, and one is held by First Industrial Development Services, L.P.

2. Basis of Presentation

First Industrial Realty Trust, Inc. is the sole general partner of the Operating Partnership, with an approximate 84.0% ownership interest at December 31, 1998. Minority interest at December 31, 1998, represents the approximately 16.0% aggregate partnership interest in the Operating Partnership held by the limited partners thereof.

The consolidated financial statements of the Company at December 31, 1998 and 1997 and for each of the three years ended December 31, 1998 include the accounts and operating results of the Company and its subsidiaries. Such financial statements present the Company's 10% equity interest in the September 1998 Joint Venture (hereinafter defined) under the equity method of accounting. All significant intercompany transactions have been eliminated in consolidation.

3. Summary of Significant Accounting Policies

In order to conform with generally accepted accounting principles, management, in preparation of the Company's financial statements, is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of December 31, 1998 and 1997, and the reported amounts of revenues and expenses for the years ended December 31, 1998, 1997 and 1996. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments with an initial maturity of three months or less. The carrying amount approximates fair value due to the short maturity of these investments.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

Investment in Real Estate and Depreciation

Purchase accounting has been applied when ownership interests in properties were acquired for cash. The historical cost basis of properties has been carried over when certain ownership interests were exchanged for Operating Partnership units on July 1, 1994 and purchase accounting has been used for all other properties that were subsequently acquired in exchange for Operating Partnership units.

Real estate assets are carried at the lower of depreciated cost or fair value. The Company reviews its properties on a quarterly basis for impairment and provides a provision if impairments are determined. First, to determine if impairment may exist, the Company reviews its properties and identifies those which have had either an event of change or event of circumstances warranting further assessment of recoverability. Then, the Company estimates the fair value of those properties on an individual basis by capitalizing the expected net operating income. Such amounts are then compared to the property's depreciated cost to determine whether an impairment exists. For properties management considers held for sale, the Company ceases depreciating the properties and values the properties at the lower of depreciated cost or fair value.

Interest expense, real estate taxes and other directly related expenses incurred during construction periods are capitalized and depreciated commencing with the date placed in service, on the same basis as the related assets. Depreciation expense is computed using the straight-line method based on the following useful lives:

	Years
Buildings and Improvements	31.5 to 40
Land Improvements	15
Furniture, Fixtures and Equipment	5 to 10

Construction expenditures for tenant improvements, leasehold improvements and leasing commissions are capitalized and amortized over the terms of each specific lease. Repairs and maintenance are charged to expense when incurred. Expenditures for improvements are capitalized.

When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss.

Deferred Financing Costs

Deferred financing costs include fees and costs incurred to obtain long-term financing. These fees and costs are being amortized over the terms of the respective loans. Accumulated amortization of deferred financing costs was \$1,246 and \$1,672 at December 31, 1998 and 1997, respectively. Unamortized deferred financing fees are written-off when debt is retired before the maturity date (see Note 12).

Investment in Joint Venture

Investment in Joint Venture represents the Company's 10% equity interest in the September 1998 Joint Venture (hereinafter defined). The Company accounts for its Investment in Joint Venture under the equity method of accounting. Under the equity method of accounting, the Company's share of earnings or losses of the September 1998 Joint Venture is reflected in income as earned and contributions or distributions increase or decrease, respectively, the Company's Investment in Joint Venture as paid or received, respectively.

Revenue Recognition

Rental income is recognized on a straight-line method under which contractual rent increases are recognized evenly over the lease term. Tenant recovery income includes payments from tenants for taxes, insurance and other property operating expenses and is recognized as revenue in the same period the related expenses are incurred by the Company.

The Company provides an allowance for doubtful accounts against the portion of tenant accounts receivable which is estimated to be uncollectible. Accounts receivable in the consolidated balance sheets are shown net of an allowance for doubtful accounts of \$2,000 and \$1,450 as of December 31, 1998 and December 31, 1997, respectively.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, the Company generally is not subject to federal income taxation at the corporate level to the extent it distributes annually at least 95% of its REIT taxable income, as defined in the Code, to its stockholders and satisfies certain other requirements. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

The Company and certain of its subsidiaries are subject to certain state and local income, excise and franchise taxes. The provision for such state and local taxes has been reflected in general and administrative expense in the consolidated statements of operations and has not been separately stated due to its insignificance.

For federal income tax purposes, the cash distributions paid to stockholders may be characterized as ordinary income, return of capital (generally non-taxable) or capital gains. Distributions paid for the year ended December 31, 1998, totaling \$82,320, are characterized 63.9% (\$1.40 per share) as ordinary income, 34.6% (\$.76 per share) as return of capital and 1.5% (\$.03 per share) as long-term capital gain. Distributions paid for the year ended December 31, 1997, totaling \$65,322, are characterized 62.30% (\$1.274 per share) as ordinary income, 35.60% (\$.728 per share) as return of capital and 2.10% (\$.043 per share) as long-term capital gain. Distributions paid for the year ended December 31, 1996 totaling \$50,418 are characterized 65.97% (\$1.300 per share) as ordinary income and 34.03% (\$.670 per share) as return of capital.

Earnings Per Common Share

The Company has adopted the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FAS 128"). Net income per weighted average share – basic is based on the weighted average common shares outstanding. Net income per weighted average share – diluted is based on the weighted average common shares outstanding plus the effect of in-the-money employee stock options. See Note 13 for the disclosure required under FAS 128.

Fair Value of Financial Instruments

The Company's financial instruments include short-term investments, tenant accounts receivable, accounts payable, other accrued expenses, mortgage loans payable, acquisition facility payable, senior unsecured debt, certain put and call options issued in conjunction with two initial offerings of unsecured debt and interest rate protection agreements. The fair value of the short-term investments, tenant accounts receivable, accounts payable and other accrued expenses was not materially different from their carrying or contract values. See Note 6 for the fair values of the mortgage loans payable, acquisition facility payable, senior unsecured debt, certain put and call options issued in conjunction with initial offerings of unsecured debt and interest rate protection agreements.

Derivative Financial Instruments

The Company's interest rate protection agreements (the "Agreements") were used to limit the interest rate on the Company's \$300,000 mortgage loan and fix the interest rate on anticipated offerings of senior unsecured debt (see Note 9). Receipts or payments resulting from the Agreements that were used to limit the interest rate on the Company's \$300,000 mortgage loan were recognized as adjustments to interest expense. Upon termination of these Agreements, the Company recognized a gain (loss) from the disposition of the Agreements equal to the amount of cash received or paid at termination less the carrying value of the Agreements on the Company's balance sheet. Receipts or payments that resulted from the settlement of Agreements used to fix the interest rate on anticipated offerings of senior unsecured debt are being amortized over the life of the senior unsecured debt that the Agreements were used to hedge as an adjustment to interest expense using the effective interest method (or the straight line method if this method is not materially different from the effective interest method). Any Agreements which no longer qualify for hedge accounting are marked to market and any gain or loss is recognized immediately. The credit risks associated with the Agreements were controlled through the evaluation and monitoring of the creditworthiness of the counterparty. In the event that the counterparty failed to meet the terms of the Agreements, the Company's exposure was limited to the current value of the interest rate differential, not the notional amount, and the Company's carrying value of the Agreements on the balance sheet. The Agreements were executed with creditworthy financial institutions.

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standards No. 130, “Reporting Comprehensive Income.” This statement, effective for fiscal years beginning after December 15, 1997, requires the Company to report components of comprehensive income in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is defined by Concepts Statement No. 6, “Elements of Financial Statements” as the change in the equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company’s net income available to common stockholders approximates its comprehensive income as defined in Concepts Statement No. 6, “Elements of Financial Statements.”

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“FAS 131”). This statement, effective for financial statements for fiscal years beginning after December 15, 1997, requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. The sole business of the Company is the owning and the operation of industrial properties. The Company evaluates operating results and allocates resources on a property-by-property basis. Accordingly, the Company has concluded it has a single reportable segment for FAS 131 purposes. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. Therefore, no additional disclosure due to the adoption of FAS 131 is currently required.

In March 1998, the FASB’s Emerging Issues Task Force (the “Task Force”) issued Emerging Issues Task Force Issue No. 97-11, “Accounting for Internal Costs Relating to Real Estate Property Acquisitions” (“EITF 97-11”). EITF 97-11, effective March 19, 1998, requires that internal costs of preacquisition activities incurred in connection with the acquisition of an operating property be expensed as incurred. The Task Force concluded that a property is considered operating if, at the date of acquisition, major construction activity is substantially completed on the property and (a) it is held available for occupancy upon completion of tenant improvements by the acquirer or (b) it is already income producing. The Company adopted EITF 97-11 as of March 19, 1998. Prior to March 19, 1998, the Company capitalized internal costs of preacquisition activities incurred in connection with the acquisition of operating properties. The adoption of EITF 97-11 resulted in a cumulative increase of approximately \$2,700 in the amount of general and administrative expense reflected in the Company’s consolidated statement of operations in 1998.

In April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, “Reporting on the Costs of Start-Up Activities” (“SOP 98-5”). SOP 98-5 requires that the net unamortized balance of all start-up costs and organizational costs be written off as a cumulative effect of a change in accounting principle and all future start-up costs and organizational costs be expensed. In the second quarter of 1998, the Company reported a cumulative effect of a change in accounting principle in the amount of approximately \$1,976 to reflect the write-off of the unamortized balance of organizational costs on the Company’s balance sheet.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities.” This statement, effective for fiscal years beginning after June 15, 1999, establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments imbedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that the changes in the derivative’s fair value be recognized in earnings unless specific hedge accounting criteria are met. The Company is currently assessing the impact of this new statement on its consolidated financial position, liquidity, and results of operations.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

4. Investment in Joint Venture

On September 28, 1998, the Company, through a wholly-owned limited liability company in which the Operating Partnership is the sole member, entered into a joint venture arrangement (the "September 1998 Joint Venture") with an institutional investor to invest in industrial properties. The Company, through wholly-owned limited liability companies of the Operating Partnership, owns a 10% equity interest in the September 1998 Joint Venture and provides property and asset management services to the September 1998 Joint Venture. On or after October 2000, under certain circumstances, the Company has the option of purchasing all of the properties owned by the September 1998 Joint Venture at a price determined by the provisions in the co-ownership agreement between the Company and the September 1998 Joint Venture's other partner. The Company received approximately \$2,348 (net of the intercompany elimination) in acquisition, asset management and property management fees in 1998 from the September 1998 Joint Venture. The Company accounts for the September 1998 Joint Venture under the equity method of accounting. As of December 31, 1998, the September 1998 Joint Venture owned 130 industrial properties comprising approximately 6.3 million square feet (unaudited) of GLA.

5. Real Estate Held for Sale

The Company has an active sales program through which it is continually engaged in identifying and evaluating its current portfolio for potential sales candidates in order to redeploy capital. At December 31, 1998, the Company had three industrial properties located in New Jersey comprising approximately 148,874 square feet (unaudited) of GLA held for sale, one industrial property located in Michigan comprising approximately 32,470 square feet (unaudited) of GLA held for sale and one industrial property located in Colorado comprising approximately 26,922 square feet (unaudited) of GLA held for sale. There can be no assurance that such properties held for sale will be sold.

The following table discloses certain information regarding the five industrial properties held for sale by the Company.

	Year Ended		
	1998	1997	1996
Total Revenues	\$ 1,481	\$ 1,013	\$ 183
Operating Expenses	[334]	[170]	[4]
Depreciation and Amortization . . .	[309]	[250]	[87]
Income from Operations	\$ 838	\$ 593	\$ 92
Net Carrying Value	\$ 9,720		

6. Mortgage Loans, Net, Senior Unsecured Debt, Net, Acquisition Facilities Payable and Interest Rate Protection Agreements

Mortgage Loans

On June 30, 1994, the Company, through the Financing Partnership, entered into a \$300,000 mortgage loan (the "1994 Mortgage Loan"). On April 4, 1997, the Company purchased U.S. Government securities as substitute collateral to execute a legal defeasance of the \$300,000 mortgage loan (the "1994 Defeased Mortgage Loan") (See Note 12). Upon the execution of the legal defeasance, 180 of the 195 properties collateralizing the 1994 Defeased Mortgage Loan were released leaving 15 properties and the U.S. Government securities as collateral. On January 2, 1998, the Company used the gross proceeds from the maturity of the U.S. Government securities to pay off and retire the 1994 Defeased Mortgage Loan. Due to the retirement of the 1994 Defeased Mortgage Loan, the remaining 15 properties were released on January 2, 1998. The 1994 Defeased Mortgage Loan provided for interest only payments at a floating interest rate of LIBOR plus 1.40% which such interest rate had been limited to 7.2% from June 30, 1994 through June 30, 1995 through the use of the 1994 Interest Rate Protection Agreement (hereinafter defined). From July 1, 1995 through May 15, 1997, the 1994 Defeased Mortgage Loan's interest rate had been effectively fixed at the rate of 6.97% through the use of the 1995 Interest Rate Protection Agreements (hereinafter defined). From May 16, 1997 through December 31, 1997, the 1994 Defeased Mortgage Loan's interest rate had been limited to 7.2% through the use of the 1997 Interest Rate Protection Agreement (hereinafter defined).

Under the terms of the 1994 Defeased Mortgage Loan, certain cash reserves were required to be and had been set aside for payment of tenant improvements, capital expenditures, interest, real estate taxes, insurance and potential environmental costs as well as certain other cash reserves to pay off and retire the 1994 Defeased Mortgage Loan. The amount of cash reserves for payment of potential environmental costs was determined by the lender and was established at the closing of the 1994 Defeased Mortgage Loan. The amounts included in the cash reserves relating to payments of tenant improvements, capital expenditures, interest, real estate taxes and insurance were determined by the lender and approximated the next periodic payment of such items. At December 31, 1997, these reserves totaled \$310,943 and were included in Restricted Cash. Such cash reserves were invested in a money market fund at December 31, 1997. The maturity of these investments is one day; accordingly, cost approximates fair value. On January 2, 1998, \$300,000 of these cash reserves were used to pay down and retire the 1994 Defeased Mortgage Loan, \$6,000 of these cash reserves were used to pay a prepayment fee on the 1994 Defeased Mortgage Loan and the remaining cash reserves were returned to the Company.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

On December 29, 1995, the Company, through the Mortgage Partnership, entered into a \$40,200 mortgage loan (the "1995 Mortgage Loan"). In the first quarter of 1996, the Company made a one time paydown of \$200 on the 1995 Mortgage Loan which decreased the outstanding balance to \$40,000. The 1995 Mortgage Loan matures on January 11, 2026 and provides for interest only payments through January 11, 1998, after which monthly principal and interest payments are required based on a 28-year amortization schedule. The interest rate under the 1995 Mortgage Loan is fixed at 7.22% per annum through January 11, 2003. After January 11, 2003, the interest rate adjusts through a predetermined formula based on the applicable Treasury rate. The 1995 Mortgage Loan is collateralized by 23 properties held by the Mortgage Partnership. The 1995 Mortgage Loan may be prepaid after January 2003.

Under the terms of the 1995 Mortgage Loan, certain cash reserves are required to be and have been set aside for refunds of security deposits and payments of capital expenditures, interest, real estate taxes and insurance. The amount of cash reserves segregated for security deposits is adjusted as tenants turn over. The amounts included in the cash reserves relating to payments of capital expenditures, interest, real estate taxes and insurance were determined by the lender and approximate the next periodic payment of such items. At December 31, 1998 and 1997, these reserves totaled \$3,286 and \$2,117, respectively, and are included in Restricted Cash. Such cash reserves were invested in a money market fund at December 31, 1998. The maturity of these investments is one day; accordingly, cost approximates fair value.

On December 14, 1995, the Company, through First Industrial Harrisburg, L.P., entered into a \$6,650 mortgage loan (the "Harrisburg Mortgage Loan") that was collateralized by first mortgage liens on three properties in Harrisburg, Pennsylvania. The Harrisburg Mortgage Loan bore interest at a rate based on LIBOR plus 1.5% or prime plus 2.25%, at the Company's option, and provided for interest only payments through May 31, 1996, with monthly principal and interest payments required subsequently based on a 26.5-year amortization schedule. On December 15, 1997, the Company paid off and retired the Harrisburg Mortgage Loan (see Note 12).

On March 20, 1996, the Company, through the Operating Partnership, and the Indianapolis Partnership, entered into a \$36,750 mortgage loan (the "CIGNA Loan") that is collateralized by seven properties in Indianapolis, Indiana and three properties in Cincinnati, Ohio. The CIGNA Loan bears interest at a fixed interest rate of 7.50% and provides for monthly principal and interest payments based on a 25-year amortization schedule. The CIGNA Loan matures on April 1, 2003. The CIGNA Loan may be prepaid only after April 1999 in exchange for the greater of a 1% prepayment fee or a yield maintenance premium.

On March 20, 1996, the Company, through the Operating Partnership, assumed a \$6,424 mortgage loan and a \$2,993 mortgage loan (together, the "Assumed Loans") that are collateralized by 13 properties in Indianapolis, Indiana and one property in Indianapolis, Indiana, respectively. The Assumed Loans bear interest at a fixed rate of 9.25% and provide for monthly principal and interest payments based on a 16.75-year amortization schedule. The Assumed Loans mature on January 1, 2013. The Assumed Loans may be prepaid only after December 1999 in exchange for the greater of a 1% prepayment fee or a yield maintenance premium.

In conjunction with an acquisition of a portfolio of properties on January 31, 1997, the Company, through the Operating Partnership, assumed two mortgage loans in the amount of \$3,800 (the "LB Mortgage Loan I") and \$705 (the "LB Mortgage Loan II"). The LB Mortgage Loan I, which was collateralized by a property located in Long Island, New York and provided for interest only payments prior to its maturity date of July 11, 1998, was paid off and retired by the Company on December 19, 1997 (see Note 12). The LB Mortgage Loan II, which is collateralized by a property located in Long Island, New York, is interest free until February, 1998, at which time the LB Mortgage Loan II bears interest at 8.00% and provides for interest only payments prior to maturity. The LB Mortgage Loan II matures 180 days after the completion of a contingent event relating to the environmental status of the property collateralizing the loan.

In conjunction with the acquisition of a portfolio of properties on October 23, 1997, the Company, through the Operating Partnership, assumed a mortgage loan in the amount of \$4,153 (the "Acquisition Mortgage Loan I"). The Acquisition Mortgage Loan I is collateralized by a property in Bensenville, Illinois, bears interest at a fixed rate of 8.50% and provides for monthly principal and interest payments based on a 15-year amortization schedule. The Acquisition Mortgage Loan I matures on August 1, 2008. The Acquisition Mortgage Loan I may be prepaid after July 1998 in exchange for a prepayment fee.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

In conjunction with the acquisition of a portfolio of properties on December 9, 1997, the Company, through the Operating Partnership, assumed a mortgage loan in the amount of \$7,997 (the "Acquisition Mortgage Loan II"). The Acquisition Mortgage Loan II is collateralized by ten properties in St. Charles, Louisiana, bears interest at a fixed rate of 7.75% and provides for monthly principal and interest payments based on a 22-year amortization schedule. The Acquisition Mortgage Loan II matures on April 1, 2006. The Acquisition Mortgage Loan II may be prepaid only after April 1999 in exchange for the greater of a 1% prepayment fee or a yield maintenance premium.

In conjunction with the acquisition of a portfolio of properties on December 23, 1997, the Company, through the Operating Partnership, assumed a mortgage loan in the amount of \$3,598 (the "Acquisition Mortgage Loan III"). The Acquisition Mortgage Loan III is collateralized by two properties in Houston, Texas, bears interest at a fixed interest rate of 8.875% and provides for monthly principal and interest payments based on a 20-year amortization schedule. The Acquisition Mortgage Loan III matures on June 1, 2003. The Acquisition Mortgage Loan III may be prepaid only after June 1998 in exchange for the greater of a 2% prepayment fee or a yield maintenance premium.

On April 16, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$2,525 (the "Acquisition Mortgage Loan IV"). The Acquisition Mortgage Loan IV is collateralized by one property in Baltimore, Maryland, bears interest at a fixed rate of 8.95% and provides for monthly principal and interest payments based on a 20-year amortization schedule. The Acquisition Mortgage Loan IV matures on October 1, 2006. The Acquisition Mortgage Loan IV may be prepaid only after October 2001 in exchange for the greater of a 1% prepayment fee or a yield maintenance premium.

On July 16, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$2,566 (the "Acquisition Mortgage Loan V"). The Acquisition Mortgage Loan V is collateralized by one property in Tampa, Florida, bears interest at a fixed rate of 9.01% and provides for monthly principal and interest payments based on a 30-year amortization schedule. The Acquisition Mortgage Loan V matures on September 1, 2006. The Acquisition Mortgage Loan V may be prepaid only after August 2002 in exchange for the greater of a 1% prepayment fee or a yield maintenance premium.

On August 31, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$965 (the "Acquisition Mortgage Loan VI"). The Acquisition Mortgage Loan VI is collateralized by one property in Portland, Oregon, bears interest at a fixed rate of 8.875% and provides for monthly principal and interest payments based on a 20-year amortization schedule. The Acquisition Mortgage Loan VI matures on November 1, 2006. The Acquisition Mortgage Loan VI may be prepaid only after September 2001 in exchange for a 3% prepayment fee.

On August 31, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$1,367 (the "Acquisition Mortgage Loan VII"). The Acquisition Mortgage Loan VII is collateralized by one property in Milwaukie, Oregon, bears interest at a fixed rate of 9.75% and provides for monthly principal and interest payments based on a 25-year amortization schedule. The Acquisition Mortgage Loan VII matures on March 15, 2002. The Acquisition Mortgage Loan VII may be prepaid only after December 2001.

On November 5, 1998, the Company, through the Operating Partnership, assumed a mortgage loan in the principal amount of \$1,348 (the "Acquisition Mortgage Loan VIII"). The Acquisition Mortgage Loan VIII is collateralized by three properties in Richland Hills, Texas, bears interest at a fixed rate of 8.45% and provides for monthly principal and interest payments based on a 143-month amortization schedule. The Acquisition Mortgage Loan VIII matures on July 1, 2009.

Senior Unsecured Debt

On April 4, 1997, the Company, through the Operating Partnership, entered into a \$309,800 unsecured loan (the "Defeasance Loan"). The Defeasance Loan bore interest at LIBOR plus 1% and had a scheduled maturity of July 1, 1999. The gross proceeds from the Defeasance Loan were used to purchase U.S. Government Securities as substitute collateral to execute a legal defeasance of the 1994 Defeased Mortgage Loan. The Defeasance Loan was paid off and retired in May, 1997 (see Note 12).

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

On May 13, 1997, the Company, through the Operating Partnership, issued \$150,000 of senior unsecured debt which matures on May 15, 2007 and bears a coupon interest rate of 7.60% (the "2007 Notes"). The issue price of the 2007 Notes was 99.965%. Interest is paid semi-annually in arrears on May 15 and November 15. The Company also entered into an interest rate protection agreement which was used to fix the interest rate on the 2007 Notes prior to issuance. The debt issue discount and the settlement amount of the interest rate protection agreement are being amortized over the life of the 2007 Notes as an adjustment to the interest expense. The 2007 Notes contain certain covenants including limitation on incurrence of debt and debt service coverage.

On May 13, 1997, the Company, through the Operating Partnership, issued \$100,000 of senior unsecured debt which matures on May 15, 2027, and bears a coupon interest rate of 7.15% (the "2027 Notes"). The issue price of the 2027 Notes was 99.854%. The 2027 Notes are redeemable, at the option of the holders thereof, on May 15, 2002. Interest is paid semi-annually in arrears on May 15 and November 15. The Company also entered into an interest rate protection agreement which was used to fix the interest rate on the 2027 Notes prior to issuance. The debt issue discount and the settlement amount of the interest rate protection agreement are being amortized over the life of the 2027 Notes as an adjustment to interest expense. The 2027 Notes contain certain covenants including limitation on incurrence of debt and debt service coverage.

On May 22, 1997, the Company, through the Operating Partnership, issued \$100,000 of senior unsecured debt which matures on May 15, 2011 and bears a coupon interest rate of 7.375% (the "2011 Notes"). The issue price of the 2011 Notes was 99.348%. Interest is paid semi-annually in arrears on May 15 and November 15. The 2011 Notes are redeemable, at the option of the holder thereof, on May 15, 2004 (the "Put Option"). The Company received approximately \$1,781 of proceeds from the holder of the 2011 Notes as consideration for the Put Option. The Company amortizes the Put Option amount over the life of the Put Option as an adjustment to interest expense. The Company also entered into an interest rate protection agreement which was used to fix the interest rate on the 2011 Notes prior to issuance. The debt issue discount and the settlement amount of the interest rate protection agreement are being amortized over the life of the 2011 Notes as an adjustment to interest expense. The 2011 Notes contain certain covenants including limitation on incurrence of debt and debt service coverage.

On November 20, 1997, the Company, through the Operating Partnership, issued \$50,000 of senior unsecured debt which matures on November 21, 2005 and bears a coupon interest rate of 6.90% (the "2005 Notes"). The issue price of the 2005 Notes was 100%. Interest is paid semi-annually in arrears on May 21 and November 21. The 2005 Notes contain certain covenants including limitation on incurrence of debt and debt service coverage.

On November 24, 1997, the Company, through the Operating Partnership, entered into a \$25,000 unsecured loan (the "November 1997 Unsecured Loan"). The November 1997 Unsecured Loan bore interest at LIBOR plus .80% and had a scheduled maturity date of December 31, 1997. The November 1997 Unsecured Loan was paid off and retired on December 5, 1997 (see Note 12).

On December 8, 1997, the Company, through the Operating Partnership, issued \$150,000 of senior unsecured debt which matures on December 1, 2006 and bears a coupon interest rate of 7.00% (the "2006 Notes"). The issue price of the 2006 Notes was 100%. Interest is paid semi-annually in arrears on June 1 and December 1. The Company also entered into an interest rate protection agreement which was used to fix the interest rate on the 2006 Notes prior to issuance. The settlement amount of the interest rate protection agreement is being amortized over the life of the 2006 Notes as an adjustment to interest expense. The 2006 Notes contain certain covenants including limitation on incurrence of debt and debt service coverage.

On December 8, 1997, the Company, through the Operating Partnership, issued \$100,000 of unsecured debt which matures on December 1, 2017 and bears a coupon interest rate of 7.50% (the "2017 Notes"). The issue price of the 2017 Notes was 99.808%. Interest is paid semi-annually in arrears on June 1 and December 1. The Operating Partnership is amortizing the debt issue discount over the life of the 2017 Notes as an adjustment to interest expense. The 2017 Notes may be redeemed at any time at the option of the Company, in whole or in part, at a redemption price equal to the sum of the principal amount of the 2017 Notes being redeemed plus accrued interest thereon to the redemption date and any make-whole amount, as defined in the Prospectus Supplement relating to the 2017 Notes.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

On March 31, 1998, the Company, through the Operating Partnership, issued \$100,000 of Dealer remarketable securities which mature on April 5, 2011 and bear a coupon interest rate of 6.50% (the "2011 Drs."). The issue price of the 2011 Drs. was 99.753%. Interest is paid semi-annually in arrears on April 5 and October 5. The 2011 Drs. are callable (the "Call Option"), at the option of J.P. Morgan Securities, Inc., as Remarketing Dealer (the "Remarketing Dealer"), on April 5, 2001 (the "Remarketing Date"). The Company received approximately \$2,760 of proceeds from the Remarketing Dealer as consideration for the Call Option. The Company is amortizing these proceeds over the life of the Call Option as an adjustment to interest expense. If the holder of the Call Option calls the 2011 Drs. and elects to remarket the 2011 Drs., then after the Remarketing Date, the interest rate on the 2011 Drs. will be reset at a fixed rate until April 5, 2011 based upon a predetermined formula as disclosed in the related Prospectus Supplement. If the Remarketing Dealer elects not to remarket the 2011 Drs., then the Operating Partnership will be required to repurchase, on the Remarketing Date, any 2011 Drs. that have not been purchased by the Remarketing Dealer at 100% of the principal amount thereof, plus accrued and unpaid interest, if any. The Company also settled an interest rate protection agreement, in the notional amount of \$100,000, which was used to fix the interest rate on the 2011 Drs. prior to issuance. The debt issue discount and the settlement amount of the interest rate protection agreement are being amortized over the life of the 2011 Drs. as an adjustment to interest expense. The 2011 Drs. contain certain covenants including limitations on incurrence of debt and debt service coverage.

On July 14, 1998, the Company, through the Operating Partnership, issued \$200,000 of senior unsecured debt which matures on July 15, 2028 and bears a coupon interest rate of 7.60% (the "2028 Notes"). The issue price of the 2028 Notes was 99.882%. Interest is paid semi-annually in arrears on January 15 and July 15. The Company also settled interest rate protection agreements, in the notional amount of \$150,000, which were used to fix the interest rate on the 2028 Notes prior to issuance. The debt issue discount and the settlement amount of the interest rate protection agreements are being amortized over the life of the 2028 Notes as an adjustment to the interest expense. The 2028 Notes contain certain covenants including limitation on incurrence of debt and debt service coverage. Approximately \$50,000 of the 2028 Notes was purchased, through a broker/dealer, by an entity in which a Director of the Company owns greater than a ten percent interest.

Acquisition Facilities

In connection with the Initial Offering, the Company, through the Operating Partnership, entered into a \$100,000 collateralized revolving credit facility (the "1994 Acquisition Facility"). During the quarter ended June 30, 1995, the capacity of the 1994 Acquisition Facility was increased to \$150,000. Borrowings under the 1994 Acquisition Facility bore interest at a floating rate equal to LIBOR plus 2.00% or a "Corporate Base Rate" plus .50%, at the Company's election. Effective July 12, 1996, the lenders reduced the interest rate to LIBOR plus 1.75%. In December 1996, the Company terminated the 1994 Acquisition Facility (see Note 12) and entered into a \$200,000 unsecured revolving credit facility (the "1996 Unsecured Acquisition Facility") which initially bore interest at LIBOR plus 1.10% or a "Corporate Base Rate" plus .25% and provided for interest only payments until the maturity date. In December 1997, the Company terminated the 1996 Unsecured Acquisition Facility (see Note 12) and entered into a \$300,000 unsecured revolving credit facility (the "1997 Unsecured Acquisition Facility") which initially bears interest at LIBOR plus .80% or a "Corporate Base Rate" at the Company's election, and provides for interest only payments until maturity. The Company may borrow under the facility to finance the acquisition of additional properties and for other corporate purposes, including to obtain additional working capital. The 1997 Unsecured Acquisition Facility contains certain financial covenants relating to debt service coverage, market value net worth, dividend payout ratio and total funded indebtedness.

In December 1995, the Company, through the Operating Partnership, entered into a \$24,219 collateralized revolving credit facility (the "1995 Credit Line"). The 1995 Credit Line bore interest at a floating rate of LIBOR plus 2.45%. The Company terminated the 1995 Credit Line in February 1996 (See Note 12).

In May 1996, the Company, through the Operating Partnership, entered into a \$10,000 collateralized revolving credit facility (the "1996 Credit Line"). The 1996 Credit Line bore interest at a floating rate from LIBOR plus 2.45% to LIBOR plus 2.75%, depending on the term of the interest rate option. The Company terminated the 1995 Credit Line in November 1996 (See Note 12).

In September 1996, the Company, through the Operating Partnership, entered into a \$40,000 revolving credit facility ("1996 Acquisition Facility"). Borrowings under the 1996 Acquisition Facility bore interest at a floating rate equal to LIBOR plus 2.00% or a "Corporate Base Rate" plus .50%, at the Company's election. The Company terminated the 1996 Acquisition Facility in November 1996 (see Note 12).

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

The following table discloses certain information regarding the Company's mortgage loans, senior unsecured debt and acquisition facility payable:

	Outstanding Balance at		Accrued Interest Payable at		Interest Rate at	
	12/31/98	12/31/97	12/31/98	12/31/97	12/31/98	Maturity Date
Mortgage Loans Payable, Net						
1995 Mortgage Loan	\$ 39,567	\$ 40,000	\$ 167	\$ 168	7.220%	1/11/26
CIGNA Loan	35,220	35,813	o	o	7.500%	4/01/03
Assumed Loans	8,661	8,950	o	o	9.250%	1/01/13
LB Mortgage Loan II	705	705	o	o	8.000%	[1]
Acquisition Mortgage Loan I	3,864	4,135	o	29	8.500%	8/01/08
Acquisition Mortgage Loan II	7,828	7,997	51	52	7.750%	4/01/06
Acquisition Mortgage Loan III	3,485	3,598	26	27	8.875%	6/01/03
Acquisition Mortgage Loan IV	2,488	o	19	o	8.950%	10/01/06
Acquisition Mortgage Loan V	2,855[2]	o	19	o	9.010%	9/01/06
Acquisition Mortgage Loan VI	1,024[2]	o	7	o	8.875%	11/01/06
Acquisition Mortgage Loan VII	1,450[2]	o	11	o	9.750%	3/15/02
Acquisition Mortgage Loan VIII	1,340	o	9	o	8.450%	7/01/09
Total	\$ 108,487	\$ 101,198	\$ 309	\$ 276		
Defeased Mortgage Loan						
1994 Mortgage Loan	\$ o	\$ 300,000	\$ o	\$ 1,831	[3]	[3]
Senior Unsecured Debt, Net						
2005 Notes	\$ 50,000	\$ 50,000	\$ 383	\$ 393	6.900%	11/21/05
2006 Notes	150,000	150,000	875	671	7.000%	12/01/06
2007 Notes	149,956[4]	149,951	1,457	1,457	7.600%	5/15/07
2011 Notes	99,424[4]	99,377	942	942	7.375%	5/15/11[5]
2017 Notes	99,818[4]	99,809	625	479	7.500%	12/01/17
2027 Notes	99,862[4]	99,857	914	914	7.150%	5/15/27[6]
2028 Notes	199,768[4]	o	7,051	o	7.600%	7/15/28
2011 Drs.	99,767[4]	o	1,553	o	6.500%[8]	4/05/11[7]
Total	\$ 948,595	\$ 648,994	\$ 13,800	\$ 4,856		
Acquisition Facility Payable						
1997 Unsecured Acquisition Facility	\$ 134,800	\$ 129,400	\$ 690	\$ 297	6.493%	4/30/01

[1] The maturity date of the LB Mortgage Loan II is based on a contingent event relating to the environmental status of the property collateralizing the loan.

[2] The Acquisition Mortgage Loan V, the Acquisition Mortgage Loan VI and the Acquisition Mortgage Loan VII are net of unamortized premiums of \$307, \$68 and \$100, respectively.

[3] The 1994 Defeased Mortgage Loan was paid off and retired on January 2, 1998.

[4] The 2007 Notes, 2011 Notes, 2017 Notes, 2027 Notes, 2028 Notes and the 2011 Drs. are net of unamortized discounts of \$44, \$576, \$182, \$138, \$232 and \$233, respectively.

[5] The 2011 Notes are redeemable at the option of the holder thereof, on May 15, 2004.

[6] The 2027 Notes are redeemable at the option of the holders thereof, on May 15, 2002.

[7] The 2011 Drs. are required to be redeemed by the Operating Partnership on April 5, 2001 if the Remarketing Dealer elects not to remarket the 2011 Drs.

[8] The 2011 Drs. bear interest at an annual rate of 6.50% to the Remarketing Date. If the holder of the Call Option calls the 2011 Drs. and elects to remarket the 2011 Drs., then after the Remarketing Date, the interest rate on the 2011 Drs. will be reset at a fixed rate until April 5, 2011 based on a predetermined formula as disclosed in the related Prospectus Supplement.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

Fair Value

At December 31, 1998 and 1997, the fair value of the Company's mortgage loans payable, senior unsecured debt, acquisition facility payable and interest rate protection agreements were as follows:

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage Loans Payable	\$ 108,487	\$ 111,305	\$ 101,198	\$ 105,838
Defeased Mortgage Loan Payable	o	o	300,000	300,000
Senior Unsecured Debt, Net	948,595	925,320	648,994	666,954
Acquisition Facility Payable	134,800	134,800	129,400	129,400
Put Option and Call Option	3,438	13,200	1,621	3,720
Interest Rate Protection Agreements	o	o	o	4,974
Total	\$ 1,195,320	\$ 1,184,625	\$ 1,181,213	\$ 1,210,886

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The following is a schedule of maturities of the mortgage loans, senior unsecured debt and acquisition facility payable for the next five years ending December 31, and thereafter:

	Amount
1999	2,266
2000	2,455
2001	137,460
2002	4,104
2003	37,309
Thereafter	1,008,513
Total	\$1,192,107

The maturity date of the LB Mortgage Loan II is based on a contingent event. As a result, the LB Mortgage Loan II is not included in the preceding table.

Interest Rate Protection Agreements

In conjunction with obtaining the 1994 Mortgage Loan, the Company, through the Financing Partnership, purchased an interest rate protection agreement (the "1994 Interest Rate Protection Agreement") which effectively limited the interest rate during the initial five-year term of the 1994 Mortgage Loan to 7.20% per annum. Prior to the subsequent replacement of the 1994 Interest Rate Protection Agreement, its cost of \$18,450 had been capitalized and was being amortized over the five-year term of the agreement. Effective July 1, 1995, the Company replaced the 1994 Interest Rate Protection Agreement with new interest rate protection agreements and entered into interest rate swap agreements (together, the "1995 Interest Rate Protection Agreements") with a notional value of \$300,000, which together effectively fixed the annual interest rate on the 1994 Mortgage Loan at 6.97% for six years through June 30, 2001. As a result of the replacement of the interest rate protection agreement, the Company incurred a loss of \$6,400. The costs of the 1995 Interest Rate Protection Agreements had been capitalized and were being amortized over the respective terms of the 1995 Interest Rate Protection Agreements. On May 16, 1997, the Company sold the 1995 Interest Rate Protection Agreements and entered into a new interest rate protection agreement (the "1997 Interest Rate Protection Agreement") at a cost of \$150 with a notional value of \$300,000 which expired at the end of 1997. The 1997 Interest Rate Protection Agreement effectively limited the interest rate on the 1994 Defeased Mortgage Loan to 7.20% until December 31, 1997. The cost of the 1997 Interest Rate Protection Agreement had been capitalized and was being amortized on a straight-line basis over the remaining life of the 1997 Interest Rate Protection Agreement. As of December 31, 1997 the interest rate protection agreements were fully amortized and written off.

7. Stockholders' Equity

Preferred Stock

In 1995, the Company issued 1,650,000 shares of 9.5%, \$.01 par value, Series A Cumulative Preferred Stock (the "Series A Preferred Stock") at an initial offering price of \$25 per share. Dividends on the Series A Preferred Stock are cumulative from the date of initial issuance and are payable quarterly in arrears. The payment of dividends and amounts upon liquidation, dissolution or winding up ranks senior to the payments on the Company's \$.01 par value common stock ("Common Stock"). The Series A Preferred Stock is not redeemable prior to November 17, 2000. On or after November 17, 2000, the Series A Preferred Stock is redeemable for cash at the option of the Company, in whole or in part, at \$25.00 per share, or \$41,250 in the aggregate, plus dividends accrued and unpaid to the redemption date. The Series A Preferred Stock has no stated maturity and is not convertible into any other securities of the Company.

The payment of dividends on, and payments on liquidation or redemption of, the Series A Preferred Stock is guaranteed by the Securities Partnership (the "Guarantor") pursuant to a Guarantee and Payment Agreement (the "Guarantee Agreement"). The Series A Preferred Stock is the only class of securities of the Company which has the benefit of such guarantee. To the extent the Company fails to make any payment of dividend or pay any portion of the liquidation preference on or the redemption price of any shares of Series A Preferred Stock, the Guarantor will be obligated to pay an amount to each holder of Series A Preferred Stock equal to any such shortfall.

On May 14, 1997, the Company issued 4,000,000 Depositary Shares, each representing 1/100th of a share of the Company's 8 $\frac{3}{4}$ %, \$.01 par value, Series B Cumulative Preferred Stock (the "Series B Preferred Stock"), at an initial offering price of \$25 per Depositary Share. Dividends on the Series B Preferred Stock, represented by the Depositary Shares, are cumulative from the date of initial issuance and are payable quarterly in arrears. With respect to the payment of dividends and amounts upon liquidation, dissolution or winding up, the Series B Preferred Stock ranks senior to payments on the Company's Common Stock and pari passu with the Company's Series A Preferred Stock, Series C Preferred Stock (hereinafter defined), Series D Preferred Stock (hereinafter defined) and Series E Preferred Stock (hereinafter defined). The Series B Preferred Stock is not redeemable prior to May 14, 2002. On or after May 14, 2002, the Series B Preferred Stock is redeemable for cash at the option of the Company, in whole or in part, at a redemption price equivalent to \$25 per Depositary Share, or \$100,000 in the aggregate, plus dividends accrued and unpaid to the redemption date. The Series B Preferred Stock has no stated maturity and is not convertible into any other securities of the Company.

On June 6, 1997, the Company issued 2,000,000 Depositary Shares, each representing 1/100th of a share of the Company's 8%, \$.01 par value, Series C Cumulative Preferred Stock (the "Series C Preferred Stock"), at an initial offering price of \$25 per Depositary Share. Dividends on the Series C Preferred Stock, represented by the Depositary Shares, are cumulative from the date of initial issuance and are payable quarterly in arrears. With respect to the payment of dividends and amounts upon liquidation, dissolution or winding up, the Series C Preferred Stock ranks senior to payments on the Company's Common Stock and pari passu with the Company's Series A Preferred Stock, Series B Preferred Stock, Series D Preferred Stock (hereinafter defined) and Series E Preferred Stock (hereinafter defined). The Series C Preferred Stock is not redeemable prior to June 6, 2007. On or after June 6, 2007, the Series C Preferred Stock are redeemable for cash at the option of the Company, in whole or in part, at a redemption price equivalent to \$25 per Depositary Share, or \$50,000 in the aggregate, plus dividends accrued and unpaid to the redemption date. The Series C Preferred Stock has no stated maturity and is not convertible into any other securities of the Company.

On February 4, 1998, the Company issued 5,000,000 Depositary Shares, each representing 1/100th of a share of the Company's 7.95%, \$.01 par value, Series D Cumulative Preferred Stock (the "Series D Preferred Stock"), at an initial offering price of \$25 per Depositary Share. Dividends on the Series D Preferred Stock represented by the Depositary Shares are cumulative from the date of initial issuance and are payable quarterly in arrears. With respect to the dividends and amounts upon liquidation, dissolution or winding up, the Series D Preferred Stock ranks senior to payments on the Company's Common Stock and pari passu with the Company's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series E Preferred Stock (hereinafter defined); however, the Series A Preferred Stock has the benefit of a guarantee by First Industrial Securities, L.P. The Series D Preferred Stock is not redeemable prior to February 4, 2003. On and after February 4, 2003, the Series D Preferred Stock is redeemable for cash at the option of the Company, in whole or in part, at a redemption price equivalent to \$25 per Depositary Share, or \$125,000 in the aggregate, plus dividends accrued and unpaid to the redemption date. The Series D Preferred Stock has no stated maturity and is not convertible into any other securities of the Company.

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[Dollars in thousands, except for per share data]

On March 18, 1998, the Company issued 3,000,000 Depositary Shares, each representing 1/100th of a share of the Company's 7.90%, \$.01 par value, Series E Cumulative Preferred Stock (the "Series E Preferred Stock"), at an initial offering price of \$25 per Depositary Share. Dividends on the Series E Preferred Stock represented by the Depositary Shares are cumulative from the date of initial issuance and are payable quarterly in arrears. With respect to the payment of dividends and amounts upon liquidation, dissolution or winding up, the Series E Preferred Stock ranks senior to payments on the Company's Common Stock and pari passu with the Company's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock; however, the Series A Preferred Stock has the benefit of a guarantee by First Industrial Securities, L.P. The Series E Preferred Stock is not redeemable prior to March 18, 2003. On and after March 18, 2003, the Series E Preferred Stock is redeemable for cash at the option of the Company, in whole or in part, at a redemption price equivalent to \$25 per Depositary Share, or \$75,000 in the aggregate, plus dividends accrued and unpaid to the redemption date. The Series E Preferred Stock has no stated maturity and is not convertible into any other securities of the Company.

The following table summarizes certain information regarding the Company's preferred stock:

	Stated Value at		Initial Dividend Rate	Optional Redemption Date
	12/31/98	12/31/97		
Series A Preferred Stock	\$ 41,250	\$ 41,250	9.500%	11/17/00
Series B Preferred Stock	100,000	100,000	8.750%	5/14/02
Series C Preferred Stock	50,000	50,000	8.625%	6/06/07
Series D Preferred Stock	125,000	o	7.950%	2/04/03
Series E Preferred Stock	75,000	o	7.900%	3/18/03
Total	\$ 391,250	\$ 191,250		

Common Stock

On February 2, 1996, the Company issued 5,175,000 shares of \$.01 par value common stock (the "February 1996 Equity Offering") inclusive of the underwriters' over-allotment option. The price per share in the February 1996 Equity Offering was \$22, resulting in gross offering proceeds of \$113,850. Proceeds to the Company, net of underwriters' discount and total offering expenses, were approximately \$106,343.

On October 25, 1996, the Company issued 5,750,000 shares of \$.01 par value common stock (the "October 1996 Equity Offering") inclusive of the underwriters' over-allotment option. The price per share in the October 1996 Equity Offering was \$25.50, resulting in gross offering proceeds of \$146,625. Proceeds to the Company, net of underwriters' discount and total offering expenses, were approximately \$137,697.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

On September 16, 1997, the Company issued 637,440 shares of \$.01 par value common stock (the "September 1997 Equity Offering"). The price per share in the September 1997 Equity Offering was \$31.38, resulting in gross offering proceeds of \$20,000. Proceeds to the Company, net of underwriters' discount and total offering expenses, were approximately \$18,900.

On October 15, 1997, the Company issued 5,400,000 shares of \$.01 par value common stock (the "October 1997 Equity Offering"). The price per share was \$33.40 resulting in gross offering proceeds of \$180,360. Proceeds to the Company, net of underwriters' discount and total offering expenses, were approximately \$176,556.

On April 23, 1998, the Company issued, in a private placement, 1,112,644 shares of \$.01 par value common stock (the "April 1998 Equity Offering"). The price per share in the April 1998 Equity Offering was \$32.625, resulting in gross offering proceeds of \$36,300. Proceeds to the Company, net of purchaser's discount and total offering expenses, were approximately \$33,141.

Shareholders' Rights Plan

On September 4, 1997, the Board of Directors of the Company declared a dividend distribution of one Preferred Share Purchase Right ("Right") for each outstanding share of common stock, par value \$.01 per share, of the Company. The dividend distribution was made on October 20, 1997 to stockholders of record as of the close of business on October 19, 1997. In addition, a Right will attach to each share of Common Stock issued in the future. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Junior Participating Preferred Stock (the "Junior Preferred Stock"), at a price of \$125 per one one-hundredth of a share (the "Purchase Price"), subject to adjustment. The Rights become exercisable only if a person or group of affiliated or associated persons (an "Acquiring Person") acquires, or obtains the right to acquire, beneficial ownership of Common Stock or other voting securities ("Voting Stock") that have 15% or more of the voting power of the outstanding shares of Voting Stock, or if an Acquiring Person commences or makes an announcement of an intention to commence a tender offer or exchange offer to acquire beneficial ownership of Voting Stock that have 15% or more of the voting power of the outstanding shares of Voting Stock. The Rights will expire on October 19, 2007, unless redeemed earlier by the Company at \$.001 per Right, or exchanged by the Company at an exchange ratio of one share of Common Stock per Right.

In the event that a person becomes an Acquiring Person, each holder of a Right, other than the Acquiring Person, is entitled to receive, upon exercise, (1) Common Stock having a value equal to two times the Purchase Price of the Right or (2) common stock of the acquiring company having a value equal to two times the Purchase Price of the Right.

The Junior Preferred Stock ranks junior to all other series of the Company's preferred stock with respect to payment of dividends and as to distributions of assets in liquidation. Each share of Junior Preferred Stock has a quarterly dividend rate per share equal to the greater of \$1.00 or 100 times the per share amount of any dividend (other than a dividend payable in shares of Common Stock or a subdivision of the Common Stock) declared on the Common Stock, subject to certain adjustments. In the event of liquidation, the holder of the Junior Preferred Stock is entitled to receive a preferred liquidation payment per share of \$1.00 (plus accrued and unpaid dividends) or, if greater, an amount equal to 100 times the payment to be made per share of Common Stock, subject to certain adjustments.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

Dividends/Distributions

The following table summarizes dividends/distributions for the past two years:

	Record Date	Payable Date	Dividend/Distribution per Share/Unit	Total Dividend Distribution
Common Stock/Operating Partnership Units				
First Quarter 1997	March 31, 1997	April 21, 1997	\$.50500	\$ 16,904
Second Quarter 1997	June 30, 1997	July 21, 1997	\$.50500	\$ 17,222
Third Quarter 1997	September 30, 1997	October 20, 1997	\$.50500	\$ 17,700
Fourth Quarter 1997	December 31, 1997	January 20, 1998	\$.53000	\$ 22,010
First Quarter 1998	March 31, 1998	April 20, 1998	\$.53000	\$ 22,497
Second Quarter 1998	June 30, 1998	July 20, 1998	\$.53000	\$ 23,555
Third Quarter 1998	September 30, 1998	October 19, 1998	\$.53000	\$ 23,735
Fourth Quarter 1998	December 31, 1998	January 18, 1999	\$.60000	\$ 27,081
Series A Preferred Stock				
First Quarter 1997	March 14, 1997	March 31, 1997	\$.59375	\$ 980
Second Quarter 1997	June 13, 1997	June 30, 1997	\$.59375	\$ 980
Third Quarter 1997	September 15, 1997	September 30, 1997	\$.59375	\$ 980
Fourth Quarter 1997	December 15, 1997	December 31, 1997	\$.59375	\$ 980
First Quarter 1998	March 13, 1998	March 31, 1998	\$.59375	\$ 980
Second Quarter 1998	June 15, 1998	June 30, 1998	\$.59375	\$ 980
Third Quarter 1998	September 15, 1998	September 30, 1998	\$.59375	\$ 980
Fourth Quarter 1998	December 15, 1998	December 31, 1998	\$.59375	\$ 980
Series B Preferred Stock				
Second Quarter 1997	June 13, 1997	June 30, 1997	\$ 27.95000	\$ 1,119
Third Quarter 1997	September 15, 1997	September 30, 1997	\$ 54.68750	\$ 2,188
Fourth Quarter 1997	December 15, 1997	December 31, 1997	\$ 54.68750	\$ 2,188
First Quarter 1998	March 13, 1998	March 31, 1998	\$ 54.68750	\$ 2,188
Second Quarter 1998	June 15, 1998	June 30, 1998	\$ 54.68750	\$ 2,188
Third Quarter 1998	September 15, 1998	September 30, 1998	\$ 54.68750	\$ 2,188
Fourth Quarter 1998	December 15, 1998	December 31, 1998	\$ 54.68750	\$ 2,188
Series C Preferred Stock				
Third Quarter 1997	September 15, 1997	September 30, 1997	\$ 68.12300 [1]	\$ 1,363
Fourth Quarter 1997	December 15, 1997	December 31, 1997	\$ 53.90600	\$ 1,078
First Quarter 1998	March 13, 1998	March 31, 1998	\$ 53.90600	\$ 1,078
Second Quarter 1998	June 15, 1998	June 30, 1998	\$ 53.90600	\$ 1,078
Third Quarter 1998	September 15, 1998	September 30, 1998	\$ 53.90600	\$ 1,078
Fourth Quarter 1998	December 15, 1998	December 31, 1998	\$ 53.90600	\$ 1,078
Series D Preferred Stock				
First Quarter 1998	March 13, 1998	March 31, 1998	\$ 30.36500	\$ 1,518
Second Quarter 1998	June 15, 1998	June 30, 1998	\$ 49.68700	\$ 2,484
Third Quarter 1998	September 15, 1998	September 30, 1998	\$ 49.68700	\$ 2,484
Fourth Quarter 1998	December 15, 1998	December 31, 1998	\$ 49.68700	\$ 2,484
Series E Preferred Stock				
First Quarter 1998	June 15, 1998	June 30, 1998	\$ 7.13194	\$ 214
Second Quarter 1998	June 15, 1998	June 30, 1998	\$ 49.37500	\$ 1,480
Third Quarter 1998	September 15, 1998	September 30, 1998	\$ 49.37500	\$ 1,480
Fourth Quarter 1998	December 15, 1998	December 31, 1998	\$ 49.37500	\$ 1,480

[1] \$14.217 of this dividend relates to the second quarter of 1997.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

8. Acquisition and Development of Real Estate

In 1998, the Company acquired 247 industrial properties comprising approximately 12.3 million square feet (unaudited) of GLA for a total purchase price of approximately \$491,504 and completed the development of 12 properties and two expansions comprising approximately 2.6 million square feet (unaudited) of GLA at a cost of approximately \$85,870.

In 1997, the Company acquired 389 industrial properties comprising approximately 22.9 million square feet (unaudited) of GLA for a total purchase price of approximately \$862,350 and completed the development of ten properties and two expansions comprising approximately 1.7 million square feet (unaudited) of GLA at a cost of approximately \$50,246.

In 1996, the Company acquired 112 industrial properties comprising approximately 10.4 million square feet (unaudited) of GLA for a total purchase price of approximately \$252,991 and completed the development of two properties comprising approximately .2 million square feet (unaudited) of GLA at a cost of approximately \$900.

9. Disposition of Interest Rate Protection Agreements

In November 1998, the Company, through the Operating Partnership, settled its remaining interest rate protection agreement which was scheduled to expire on January 4, 1999. This agreement was entered into in December 1997 in anticipation of 1998 senior unsecured debt offerings. Due to the changing market conditions and the Company's expectation that it would not issue debt securities associated with the interest rate protection agreement, the Company settled its position. As a result, the Company has recognized an expense of approximately \$8,475 associated with the termination of the interest rate protection agreement in the fourth quarter of 1998.

In May 1997, the Company sold the 1995 Interest Rate Protection Agreements for approximately \$9,950. The gain on disposition of the 1995 Interest Rate Protection Agreement totaled approximately \$1,430.

10. Restructuring and Abandoned Pursuit Costs Charge

In connection with management's plan to improve operating efficiencies and reduce costs, the Company recorded a restructuring and abandoned pursuit costs charge of approximately \$11,941 in the fourth quarter of 1998. The restructuring charge includes approximately \$6,858 in severance costs, of which approximately \$1,206 is non-cash relating to immediate vesting of restricted stock. The cash portion of the severance costs were paid in fiscal year 1999. Approximately \$5,083 of the charge relates to abandoned acquisitions.

11. Sales of Real Estate

In 1998, the Company sold 41 in-service properties and several parcels of land. Gross proceeds from these sales totaled approximately \$99,904. Approximately \$56,300 of the gross proceeds were received from the September 1998 Joint Venture (the Company sold 21 of the 41 properties to the September 1998 Joint Venture at the Company's net book value). The gain on sales totaled approximately \$5,349.

In 1997, the Company sold ten in-service properties, one property held for redevelopment and several parcels of land. Gross proceeds from these sales totaled approximately \$33,658. The gain on sales totaled approximately \$5,003.

In 1996, the Company sold six in-service properties. Gross proceeds from these sales totaled approximately \$14,972. The gain on sales totaled approximately \$4,344.

12. Extraordinary Items

In 1997, the Company terminated the Harrisburg Mortgage Loan, the LB Mortgage Loan I, the Defeasance Loan, the November 1997 Unsecured Loan and the 1996 Unsecured Acquisition Facility before their contractual maturity date. Also, the Company entered into a commitment to pay down and retire the 1994 Defeased Mortgage Loan on January 2, 1998. As a result of the early retirements and the commitment for early retirement of the 1994 Defeased Mortgage Loan, the Company recorded an extraordinary loss of \$14,124 comprised of prepayment fees, the write off of unamortized deferred financing fees, legal costs and other expenses.

In 1996, the Company terminated the 1994 Acquisition Facility, the 1995 Credit Line, the 1996 Credit Line and the 1996 Acquisition Facility before their contractual maturity date. As a result of these early retirements, the Company recorded an extraordinary loss of \$2,273 comprised of a prepayment fee, the write-off of unamortized deferred financing fees, legal costs and other expenses.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

13. Earnings Per Share

In February 1997, the FASB issued FAS 128, effective for financial statements ending after December 15, 1997. As required by this statement, the Company adopted the new standard for computing and presenting earnings per share (EPS) for the year ended December 31, 1997, and for all prior-periods' EPS data presented herein. The outstanding Operating Partnership units have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the minority interests' share of income would also be added back to net income. The computation of basic and diluted EPS, as prescribed by FAS 128, is presented below:

	Year Ended 12/31/98	Year Ended 12/31/97	Year Ended 12/31/96
Numerator			
Income Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	\$ 77,697	\$ 66,070	\$ 37,937
Less: Preferred Stock Dividends	[30,610]	[11,856]	[3,919]
Net Income Available to Common Stockholders Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle – For Basic and Diluted EPS	\$ 47,087	\$ 54,214	\$ 34,018
Extraordinary Loss	°	[14,124]	[2,273]
Cumulative Effect of Change in Accounting Principle	[1,976]	°	°
Net Income Available to Common Stockholders – For Basic and Diluted EPS	\$ 45,111	\$ 40,090	\$ 31,745
Denominator			
Weighted Average Common Shares Outstanding at December 31, 1998, 1997 and 1996, respectively – Basic	37,444,961	31,508,240	24,755,953
Effect of Dilutive Securities: Employee Common Stock Options	182,515	305,686	86,447
Weighted Average Common Shares Outstanding at December 31, 1998, 1997 and 1996, respectively – Diluted	37,627,476	31,813,926	24,842,400
Basic EPS			
Net Income Available to Common Stockholders Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	\$ 1.26	\$ 1.72	\$ 1.37
Extraordinary Loss	\$ °	\$ [.45]	\$ [.09]
Cumulative Effect of Change in Accounting Principle	\$ [.05]	\$ °	\$ °
Net Income Available to Common Stockholders	\$ 1.20	\$ 1.27	\$ 1.28
Diluted EPS			
Net Income Available to Common Stockholders Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	\$ 1.25	\$ 1.70	\$ 1.37
Extraordinary Loss	\$ °	\$ [.44]	\$ [.09]
Cumulative Effect of Change in Accounting Principle	\$ [.05]	\$ °	\$ °
Net Income Available to Common Stockholders	\$ 1.20	\$ 1.26	\$ 1.28

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

14. Future Rental Revenues

The Company's properties are leased to tenants under net and semi-net operating leases. Minimum lease payments receivable, excluding tenant reimbursements of expenses, under noncancelable operating leases in effect as of December 31, 1998 are approximately as follows:

Future Rental Revenues	
1999	288,070
2000	235,326
2001	186,056
2002	143,203
2003	107,304
Thereafter	272,882
Total	\$1,232,841

15. Employee Benefit Plans

The Company maintains two stock incentive plans (the "Stock Incentive Plans") which are administered by the Compensation Committee of the Board of Directors. Only officers and other employees of the Company and its affiliates generally are eligible to participate in the Stock Incentive Plans. However, Independent Directors of the Company receive automatic annual grants of options to purchase 10,000 shares at a per share exercise price equal to the fair market value of a share on the date of grant.

The Stock Incentive Plans authorize (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Code, (ii) the grant of stock options that do not so qualify, (iii) restricted stock awards, (iv) performance share awards and (v) dividend equivalent rights. The exercise price of stock options will be determined by the Compensation Committee, but may not be less than 100% of the fair market value of the shares on the date of grant. Special provisions apply to awards granted under the Stock Incentive Plans in the event of a change in control in the Company. As of December 31, 1998, stock options covering 5.0 million shares were outstanding and stock options covering 2.2 million shares were available under the Stock Incentive Plans. The outstanding stock options generally vest over one to ten year periods and have lives of ten years. Stock option transactions are summarized as follows:

	Shares	Weighted Average Exercise Price Per Share	Exercise Price Per Share
Outstanding at December 31, 1995	858,000	\$22.37	\$18.25 – \$23.50
Granted	263,500	\$22.94	\$22.75 – \$25.63
Exercised	[16,000]	\$23.50	\$23.50
Expired or Terminated	[12,000]	\$23.50	\$23.50
Outstanding at December 31, 1996	1,093,500	\$22.49	\$18.25 – \$25.63
Granted	538,000	\$30.32	\$28.50 – \$30.375
Exercised or Converted	[300,000]	\$22.50	\$18.25 – \$23.50
Outstanding at December 31, 1997	1,331,500	\$25.67	\$18.25 – \$30.375
Granted	5,248,200	\$34.92	\$24.00 – \$35.81
Exercised or Converted	[165,500]	\$23.14	\$20.25 – \$30.38
Expired or Terminated	[1,417,200]	\$35.42	\$22.75 – \$35.81
Outstanding at December 31, 1998	4,997,000	\$32.70	\$18.25 – \$35.81

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

The following table summarizes currently outstanding and exercisable options as of December 31, 1998:

Range of Exercise Price	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$18.25 – \$25.63	685,000	6.53	\$22.59	685,000	\$22.59
\$28.50 – \$35.81	4,312,000	9.01	\$34.30	870,350	\$30.66

The Company applies Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” in accounting for its Stock Incentive Plans. Accordingly, no compensation expense has been recognized in the consolidated statements of operations. Had compensation expense for the Company’s Stock Incentive Plans been determined based upon the fair value at the grant date for awards under the Stock Incentive Plans consistent with the methodology prescribed under Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation,” net income and earnings per share would have been the pro forma amounts indicated in the table below:

	For The Year Ended		
	1998	1997	1996
Net Income Available to Common Stockholders – as reported	\$ 45,111	\$ 40,090	\$ 31,745
Net Income Available to Common Stockholders – pro forma	\$ 43,324	\$ 38,810	\$ 31,239
Net Income Available to Common Stockholders per Share – as reported – Basic	\$ 1.20	\$ 1.27	\$ 1.28
Net Income Available to Common Stockholders per Share – pro forma – Basic	\$ 1.16	\$ 1.23	\$ 1.26
Net Income Available to Common Stockholders per Share – as reported – Diluted	\$ 1.20	\$ 1.26	\$ 1.28
Net Income Available to Common Stockholders per Share – pro forma – Diluted	\$ 1.15	\$ 1.22	\$ 1.26

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	8.01%	8.15%	7.16%
Expected stock price volatility	20.56%	20.01%	18.12%
Risk-free interest rate	5.64%	6.48%	6.81%
Expected life of options	3.74	3.78	7.37

The weighted average fair value of options granted during 1998, 1997 and 1996 is \$2.95, \$2.72 and \$2.43 per option, respectively.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

In September 1994, the Board of Directors approved and the Company adopted a 401(k)/Profit Sharing Plan. Under the Company's 401(k)/Profit Sharing Plan, all eligible employees may participate by making voluntary contributions. The Company may make, but is not required to make, matching contributions. For the year ended December 31, 1996 the Company did not make any matching contributions. For the years ended December 31, 1998 and 1997, the Company made matching contributions of approximately \$198 and \$108, respectively. In March 1996, the Board of Directors approved and the Company adopted a Deferred Income Plan (the "Plan"). Under the Plan, 243,400 unit awards, 194,164 unit awards and 138,500 unit awards were granted for the years ended December 31, 1998, 1997 and 1996 respectively, providing the recipients with deferred income benefits which vest in three equal annual installments. The expense related to these deferred income benefits is included in general and administrative expenses in the consolidated statements of operations.

During 1998, the Company awarded 51,850 shares of restricted Common Stock to certain employees, 2,769 shares of restricted Common Stock to certain Directors and certain other employees of the Company converted certain employee stock options to 13,602 shares of restricted Common Stock. These restricted shares of Common Stock had a fair value of \$2,345 on the date of grant. The restricted Common Stock vests over a period from five to ten years. Compensation expense will be charged to earnings over the vesting period.

During 1997, the Company awarded 59,946 shares of restricted Common Stock to certain employees, 1,274 of restricted Common Stock to certain Directors and certain other employees of the Company converted certain employee stock options to 54,936 shares of restricted Common Stock. These restricted shares of Common Stock had a fair value of \$3,655 on the date of grant. The restricted Common Stock vests over a period from two to ten years. Compensation expense will be charged to earnings over the vesting period.

16. Related Party Transactions

The Company often obtains title insurance coverage for its properties from an entity for which an independent Director of the Company became the President, Chief Executive Officer and a Director in 1996.

From time to time, the Company utilizes real estate brokerage services from CB Richard Ellis for which a relative of one of the Company's officers/Directors is an employee.

On November 19, 1997, the Company exercised an option that was granted on March 19, 1996 to purchase a 100,000 square foot (unaudited) bulk warehouse property located in Indianapolis, Indiana for approximately \$3,338. The property was purchased from a partnership in which one of the Company's officers owned a 33.0% interest.

From time to time, the Company utilizes leasing services from an entity for which one of the Company's former officers located in a regional office owns a 62.5% ownership interest. For the year ended December 31, 1998, the Company has paid approximately \$247 of leasing commissions to this entity.

On July 16, 1998, the Company, through the Operating Partnership, completed an acquisition of a real estate firm of which a former officer and an employee of the Company owned a 77.5% interest. Gross proceeds to the real estate firm totaled approximately \$2,349. In conjunction with the acquisition of the real estate firm, the Company also acquired an industrial property from this same entity for a purchase price of approximately \$3,248, excluding costs incurred in connection with the acquisition of the property.

On June 23, 1998, the Company, through the Operating Partnership, purchased a 292,471 square foot (unaudited) light industrial property located in Denver, Colorado for approximately \$12,206. The property was purchased from a company in which one of the Company's officers owned a 12.08% interest.

Of the 247 industrial properties purchased by the Company during the year ended December 31, 1998, four industrial properties were purchased from Western Suburban Industrial Investments Limited Partnership ("Western") in which the sole general partner, having a 5% interest, was Tomasz/Shidler Investment Corporation, the sole shareholders of which were a Director of the Company and a former Director/officer of the Company who also had a 53% and 32% limited partnership interest in Western, respectively. Further, an additional Director/officer of the Company was a limited partner in Western having an interest of 2%. The aggregate purchase price for this acquisition totaled approximately \$7,900, excluding costs incurred in conjunction with the acquisition of the properties.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

In the fourth quarter of 1998, the Company sold three industrial properties to a former officer and Director of the Company for gross proceeds of approximately \$10,701. The former officer and Director has the option of selling the properties back to the Company and the Company has the option of buying the properties from the former officer and Director. The gain on sale from the sale of these properties has been deferred and will be recognized if the above mentioned options are not exercised.

17. Supplemental Information to Statements of Cash Flows

Supplemental disclosure of cash flow information:

	Year Ended 12/31/98	Year Ended 12/31/97	Year Ended 12/31/96
Interest paid, net of capitalized interest	\$ 64,294	\$ 44,627	\$ 29,309
Interest capitalized	\$ 3,643	\$ 1,151	\$ 501

Supplemental Schedule of Noncash Investing and Financing Activities

Distribution payable on common stock/units	\$ 27,081	\$ 22,010	\$ 16,281
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Exchange of Units for Common Shares

Minority interest	[5,150]	[3,395]	\$ [943]
Common stock	2	2	o
Additional paid in capital	5,148	3,393	943
	\$ o	\$ o	\$ o

In Conjunction with the Property Acquisitions, the Following Assets and Liabilities Were Assumed

Purchase of real estate	\$ 537,838	\$ 862,350	\$ 252,991
Mortgage loans	[8,771]	[20,272]	[9,417]
Promissory notes	o	o	[9,919]
Operating partnership units	[49,413]	[115,230]	[23,863]
Accounts payable and accrued expenses	[5,001]	[11,414]	[2,626]
Acquisition of real estate	\$ 474,653	\$ 715,434	\$ 207,166

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

18. Commitments and Contingencies

In the normal course of business, the Company is involved in legal actions arising from the ownership of its properties. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a materially adverse effect on the consolidated financial position, operations or liquidity of the Company.

Forty-four properties have leases granting the tenants options to purchase the property. Such options are exercisable at various times at appraised fair market value or at a fixed purchase price generally in excess of the Company's depreciated cost of the asset. The Company has no notice of any exercise of any tenant purchase option.

The Company has committed to the construction of 20 industrial properties totaling approximately 2.5 million square feet (unaudited). The estimated total construction costs are approximately \$101,922 (unaudited). These developments are expected to be funded with cash flow from operations as well as borrowings under the 1997 Unsecured Acquisition Facility.

At December 31, 1998, the Company had two letters of credit outstanding in the amounts of \$980 and \$50. The \$980 letter of credit was required under the original issuance of the Series A Preferred Stock to guarantee the payment of one quarter's dividend on the Series A Preferred Stock. The Guarantee Agent of the Series A Preferred Stock is the beneficiary of this letter of credit which expires on June 29, 1999. The \$50 letter of credit is pledged to a state governmental entity for development purposes. It expires on February 28, 2000.

19. Subsequent Events (unaudited)

During the period January 1, 1999 through March 12, 1999, the Company acquired or completed development of four industrial properties and one land parcel for a total estimated investment of approximately \$27,982. The Company also sold seven industrial properties for approximately \$12,461 of gross proceeds.

In March 1999, the Company declared a first quarter dividend of \$.60 per share/Unit on its common stock which is payable on April 19, 1999. The Company also declared a first quarter dividend of \$.59375 per share, \$54.688 per share (\$.54688 per depositary share), \$53.906 per share (\$.53906 per depositary share), \$49.687 per share (\$.49687 per depositary share) and \$49.375 per share (\$.49375 per depositary share) on its Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, respectively, which is payable on March 31, 1999.

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

20. Quarterly Financial Information (unaudited)

	Year Ended December 31, 1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total Revenues	\$ 76,214	\$ 87,305	\$ 92,339	\$ 93,844
Equity In Income of Joint Venture	o	o	o	45
Income Allocated to Minority Interest	[2,657]	[2,186]	[2,813]	[305]
Disposition of Interest Rate Protection Agreements	o	o	o	[8,475]
Income from Operations	20,171	22,265	23,015	6,897
Gain on Sales of Properties	2,360	16	693	2,280
Income Before Extraordinary Loss and Cumulative Effect of				
Change in Accounting Principle	22,531	22,281	23,708	9,177
Cumulative Effect of Change in Accounting Principle	o	[1,976]	o	o
Net Income	22,531	20,305	23,708	9,177
Preferred Stock Dividends	[5,978]	[8,210]	[8,211]	[8,211]
Net Income Available to Common Stockholders	\$ 16,553	\$ 12,095	\$ 15,497	\$ 966

Earnings Per Share

Net Income Available to Common Stockholders Before Extraordinary Loss
and Cumulative Effect of Change in Accounting Principle per Weighted
Average Common Share Outstanding:

Basic	\$.45	\$.38	\$.41	\$.03
Diluted	\$.45	\$.37	\$.41	\$.03
Net Income Available to Common Stockholders per Weighted Average Common Share Outstanding:				
Basic	\$.45	\$.32	\$.41	\$.03
Diluted	\$.45	\$.32	\$.41	\$.03

	Year Ended December 31, 1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total Revenues	\$ 46,143	\$ 52,648	\$ 56,377	\$ 68,035
Income Allocated to Minority Interest	[1,356]	[594]	[1,552]	[1,810]
Disposition of Interest Rate Protection Agreements	o	1,430	o	o
Income from Operations	11,834	15,927	15,628	17,678
Gain on Sales of Properties	o	3,999	187	817
Income Before Extraordinary Loss	11,834	19,926	15,815	18,495
Extraordinary Loss	o	[12,563]	o	[1,561]
Net Income	11,834	7,363	15,815	16,934
Preferred Stock Dividends	[980]	[2,385]	[4,245]	[4,246]
Net Income Available to Common Stockholders	\$ 10,854	\$ 4,978	\$ 11,570	\$ 12,688

Earnings Per Share

Net Income Available to Common Stockholders Before Extraordinary Loss
per Weighted Average Common Share Outstanding:

Basic	\$.36	\$.58	\$.38	\$.40
Diluted	\$.36	\$.58	\$.38	\$.40
Net Income Available to Common Stockholders per Weighted Average Common Share Outstanding:				
Basic	\$.36	\$.17	\$.38	\$.36
Diluted	\$.36	\$.16	\$.38	\$.35

Notes to Consolidated Financial Statements

[Dollars in thousands, except for per share data]

21. Pro Forma Financial Information (unaudited)

The following Pro Forma Condensed Statements of Operations for the years ended December 31, 1998 and 1997 (the "Pro Forma Statements") are presented as if the acquisition of 636 industrial properties between January 1, 1997 and December 31, 1998 had been acquired on either January 1, 1997 or the lease commencement date if the property was developed and as if the Company's 10% equity interest in the September 1998 Joint Venture had been acquired on January 1, 1997. In addition, the Pro Forma Statements are prepared as if the assumption of secured debt, the issuance of the 2007 Notes, the issuance of the 2027 Notes, the issuance of the 2011 Notes, the issuance of the 2005 Notes, the issuance of the 2006 Notes, the issuance of the 2017 Notes, the issuance of the 2011 Drs., the issuance of the 2028 Notes,

the issuance of the Series B Preferred Stock, the issuance of the Series C Preferred Stock, the issuance of the Series D Preferred Stock, the Series E Preferred Stock, the September 1997 Equity Offering, the October 1997 Equity Offering and the April 1998 Equity Offering had occurred on January 1, 1997.

The Pro Forma Statements are not necessarily indicative of what the Company's results of operations would have been for the years ended December 31, 1998 and 1997, nor do they purport to present the future results of operations of the Company.

Pro Forma Condensed Statements of Operations	Year Ended 12/31/98	Year Ended 12/31/97
Total Revenues	\$ 362,286	\$ 340,429
Property Expenses	[102,587]	[93,308]
General and Administrative Expense	[12,983]	[6,248]
Interest Expense	[73,538]	[70,669]
Amortization of Interest Rate Protection Agreements and Deferred Financing Costs	[917]	[2,812]
Depreciation and Other Amortization	[65,877]	[59,504]
Restructuring and Abandoned Pursuit Costs Charge	[11,941]	°
Income from Operations Before Equity in Income of Joint Venture, Income Allocated to Minority Interest, and Disposition of Interest Rate Protection Agreements	94,443	107,888
Equity in (Loss) Income of Joint Venture	[243]	87
Income Allocated to Minority Interest	[9,490]	[13,593]
Disposition of Interest Rate Protection Agreements	[8,475]	1,430
Income from Operations	76,235	95,812
Gain on Sales of Properties	5,349	5,003
Income Before Extraordinary Item	81,584	100,815
Preferred Stock Dividends	[32,847]	[32,847]
Income Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle Available to Common Stockholders	\$ 48,737	\$ 67,968
Income Before Extraordinary Item Available to Common Stockholders		
Per Weighted Average Common Share Outstanding		
Basic	\$ 1.29	\$ 1.82
Diluted	\$ 1.28	\$ 1.81

Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

The following table sets forth for the periods indicated the high and low closing prices per share and distributions declared per share for the Company's common stock which trades on the New York Stock Exchange under the trading symbol "FR."

Quarter Ended	High	Low	Distribution Declared
December 31, 1998	\$ 27 $\frac{1}{8}$	\$ 23 $\frac{1}{8}$	\$ 0.6000
September 30, 1998	32 $\frac{3}{4}$	22 $\frac{3}{4}$	\$ 0.5300
June 30, 1998	35 $\frac{1}{2}$	29 $\frac{3}{8}$	\$ 0.5300
March 31, 1998	37 $\frac{11}{16}$	33 $\frac{3}{8}$	\$ 0.5300
December 31, 1997	37 $\frac{3}{8}$	32 $\frac{1}{8}$	\$ 0.5300
September 30, 1997	34	28 $\frac{1}{2}$	\$ 0.5050
June 30, 1997	31 $\frac{1}{8}$	29 $\frac{1}{4}$	\$ 0.5050
March 31, 1997	32 $\frac{3}{8}$	29	\$ 0.5050

The Company had 346 common stockholders of record as of March 12, 1999.

Executive Office

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Gary H. Heigl

Chief Operating Officer

Michael J. Havalá

Chief Financial Officer

Johannson Lee Yap

Chief Investment Officer

John Clayton

Vice President, Legal

Roger Daluga

Vice President, Finance/Program Director

Cindy Thorson Klimstra

Vice President, Investor Relations

Scott A. Musil

Vice President and Controller

Mark A. Saturno

Vice President, Portfolio Management

Christopher M. Schneider

Vice President, MIS and Accounting

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Stock Exchange Listing

New York Stock Exchange, Symbol: FR

Registrar and Transfer Agent

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Chicago, Illinois

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Cahill Gordon & Reindel

New York, New York

Barack, Ferrazzano, Kirschbaum,
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Chicago, Illinois

10-K Report

A copy of the Company's Form 10-K as filed with the Securities and Exchange Commission may be obtained by contacting Vice President - Investor Relations, First Industrial Realty Trust, Inc.

Annual Meeting

The Annual Meeting of Shareholders of First Industrial Realty Trust, Inc., will be held on Wednesday, May 12, 1999 at 9:00 a.m. CDT, Sears Tower, 33rd Floor, Lincoln Room, 233 South Wacker Drive, Chicago, Illinois

* Located in Executive Office